MARKETS AND GOVERNANCE IN DEVELOPING COUNTRIES

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This is the first of two PhD elective courses in development economics. My purpose is to introduce you to contemporary models in development economics, so you can acquire a conceptual framework and toolkit for research. I will start with theory, then progress to empirical policy oriented papers featuring theory-empirics interactions. So even if you are primarily interested in empirical research, you should find it useful to learn to think about important research questions, develop identification strategies, model and estimate channels of impact of policies or shocks, the role of local context, dynamics and general equilibrium effects, and their relevance to welfare evaluation of policy reforms. Ec722, the second course to be taught in the development sequence by Sam Bazzi, will have a stronger emphasis on building empirical research skills, and on a different set of topics (migration, conflict and trade).

The topics chosen in this course reflect my own interests. The first half deals with financial market failures. Topics include market frictions in credit and insurance, implications for misallocation in agriculture and industry, and policies for financial development. The second part half deals with governance failures, including political competition, ideology, interest groups and elite capture, clientelism, ethnicity and gender, decentralization, institutional dynamics and reforms to improve governance.

Class: Rm315, TTh 930-1045, SSW 315. Attendance in IED seminar Mondays 330-445 and Development Reading Group Tuesdays 1230—145 is strongly recommended.

Office Hours: M, Th 2-330pm, in my office.

Prerequisites: First Year PhD core courses in micro and econometrics, or equivalent

Grading: Grades will be based on class presentation (25%) and participation (10%), one exam (40%) to be held on November 27, and either a referee report on a paper from a set given below, or a research proposal (25%, first draft due Nov 27, final version due on the last day of class Dec 11). You should form a team with another person attending the class and jointly present a paper from among those marked ^P in the list below. Class participation will be evaluated based on your contribution to questions and discussion.
The referee report should provide a summary of the paper (1-2 pages), critical comments and questions (2-4 pages) and an assessment of its contribution to the literature (1 page). The research proposal should consist of 8-10 pages including statement of the problem to be investigated (1-2 pages), a summary of existing relevant literature and the likely contribution of your proposed research (3-4 pages); the kind of model and/or data that would be needed and key (modeling or identification) problems that will need to be addressed (3-4 pages).

PAPERS FOR REFEREEING:

E. Liu and B. Roth, Keeping the Little Guy Down: A Debt Trap for Lending with Limited Pledgeability, August 2018. https://www.hbs.edu/faculty/Publication%20Files/writeup_aug15_2018_nobold_5fec34f0-cfc-44be-9069-b01110b80afa.pdf


TOPICS AND READINGS

Papers marked * are core readings which will be covered in detail in the lectures. Non-starred articles are supplementary.

Background Texts

P Bardhan and C Udry (BU), Development Microeconomics, Oxford University Press, 1999.


A. MARKET FAILURE

1. Credit Frictions and Microcredit (Sept 4, 6, 11, 13)

*P. Ghosh, D. Mookherjee and D. Ray, “Credit Rationing in Developing Countries: An Overview of the Theory,” Chapter 11 in MR.


2. Misallocation in Farms and Firms (Sept 18, 20, 25, 27)


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OR


3. Insurance Market Frictions and Policies (October 2,4,11,16)

P Bardhan and C Udry, “Risk and Insurance in an Agricultural Economy,” Ch. 8 in BU.


B GOVERNANCE FAILURES

6. Political Competition Frictions: Opportunism, Elite Capture (Oct 18, 23, 25, 30)

*T Persson and G Tabellini, Political Economics, Chapter 3.

*E Grossman and G Helpman, ´Electoral Competition and Special Interest Politics´, RES 1996.

*T Besley and S Coate, Sources of Inefficiency in a Representative Democracy, AER 1998


7. Models of Institutional Dynamics (Nov 1)


8. Clientelism (Nov 6)


9. Ethnicity and Gender in Politics (Nov 8, 13)


10. Political Decentralization and Targeting (Nov 15, 29, Dec 4)

*P. Bardhan and D. Mookherjee, Capture and Governance at Local and National Levels, AER 2000.


AND/OR


11. Other Reforms in Government Accountability (Dec 6,11)


AND/OR
