MARKETS AND GOVERNANCE IN DEVELOPING COUNTRIES

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This is the first of two PhD elective courses in development economics. The purpose is to provide an introduction to models used in development economics research, so you can acquire a conceptual framework and toolkit for research.

The topics chosen in this course reflect my own interests. The first half focuses on financial market failures. Topics include market frictions in credit and insurance, implications for misallocation in agriculture and industry, and financial development policy reforms. The second half of the course deals with governance failures, including political economy models, institutional dynamics, clientelism, ethnicity and gender, decentralization, and governance reforms.

From a methodological standpoint, I hope the course will help you appreciate the value of theoretical models that clearly describe channels of causation and generate testable predictions, prior to any empirical research. Within each section I will start with relevant theory, then progress to empirical policy oriented papers featuring theory-empirics interactions. Even if you are primarily interested in empirical research, this kind of approach will help you frame research questions, develop identification strategies, and identify causal mechanisms. Theory is also needed to address concerns with external validity of empirical findings, and evaluate welfare effects of policy reforms. My primary aim is to help you develop the capacity for developing and using such models.

Ec722, the second course to be taught in the development sequence by Sam Bazzi, will have a stronger emphasis on building empirical research skills, besides focusing on a different set of topics (migration, conflict and trade).

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 (i) class presentation (25%); (ii) class participation (10%); (iii) one written closed-book exam (40%) to be held in late November or during the exam period in December, and (iv) either a referee report on a paper from a set given below, or a research proposal (25%, first draft due right after Thanksgiving weekend, final version due on the last day of class). 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 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_5fec341f-0cfc-44be-9069-b01110b80afa.pdf


https://www.dropbox.com/s/eupzpdf43k44baj/AP.pdf?dl=0

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 3,5,10,12,17)

*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 19, 24, 26, Oct 1)


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3. Insurance Market Frictions and Policies (October 3,8,10,17)

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


B GOVERNANCE FAILURES


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


7. Models of Institutional Dynamics (Oct 31, Nov 5)


8. Clientelism (Nov 7)


9. Ethnicity and Gender in Politics (Nov 12, 14)

10. Political Decentralization and Targeting (Nov 19, 21, 26, Dec 3)

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

*P. Bardhan, S. Mitra, D. Mookherjee and A. Nath, Resource Transfers to Local Governments: Political Manipulation and Voting Patterns in West Bengal, working paper, Boston University.


AND/OR


11. Other Reforms in Government Accountability (Dec 5,10)