

Course Syllabus

Fall 2019 Boston University

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

L. Casaburi and T. Reed, Competition in Agricultural Markets: An Experimental Approach, April 2017. BREAD Working Paper no. 508.

F. Jensenius, A. Kotsadam and A. Mitra, Do Parties Matter at the Subdistrict Level of Politics? Evidence from Mandals in Andhra Pradesh, February 2017.
<https://www.dropbox.com/s/eupzpdf43k44baj/AP.pdf?dl=0>

H. Jacoby and G. Mansuri, Governing the Commons? Water and Power in Pakistan's Indus Basin, 2017. BREAD Working Paper no. 537.

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 Banerjee, R Benabou and D Mookherjee (BBM), *Understanding Poverty*, Oxford University Press, 2006.

D Mookherjee and D Ray (MR), *Readings in the Theory of Economic Development*, Blackwell, 2001.

Journal Abbreviations: AER (American Economic Review), AEJM (American Economic Journal: Micro), AEJA (American Economic Journal: Applied), BREAD (Bureau for Economic Analysis of Development), EJ (Economic Journal), ETA (Econometrica), JDE (Journal of Development Economics), JEEA (Journal of European Economic Association), JPE (Journal of Political Economy), JEL (Journal of Economic Literature), JEP (Journal of Economic Perspectives), RES (Review of Economic Studies), JPubE (Journal of Public Economics) QJE (Quarterly Journal of Economics)

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.

Aghion P and P Bolton, "A Trickle Down Theory of Growth and Development," RES 1997, 64, 151-272.

*M. Ghatak and T. Guinnane, "The Economics of Lending with Joint Liability: Theory and Practice," JDE 1999, 60, 1-34. Chapter 16 in MR.

T. Besley and S. Coate, "Group Lending, Repayment Incentives and Social Collateral," JDE 1995, 46, 1-18.

*A. Banerjee, D. Karlan and J. Zinman, "Six Randomized Evaluations of Microcredit: Introduction and Further Steps," AEJA, January 2015, 7(1), 1-21.

*P. Maitra, S. Mitra, D. Mookherjee, A. Motta and S. Visaria, ``[Financing Smallholder Agriculture: An Experiment with Agent-Intermediated Microloans in India](#),`` JDE 2017, 127, 306-337.

W. Jack, M. Kremer, J de Laat and T. Suri, ``Borrowing Requirements, Credit Access and Adverse Selection: Evidence from Kenya,`` BREAD Working paper no. 490, July 2016.

2. Misallocation in Farms and Firms (Sept 19, 24, 26, Oct 1)

*M. Eswaran and A Kotwal, ``Access to Capital and Agrarian Production Organization,`` EJ 1986, 96, 482-498. Chapter 8 in MR.

(P:Alonso Ahumada and Corinne Stephenson: Sept 24) A. Foster and M. Rosenzweig, ``Are There Too Many Farms in the World? Labor-Market Transaction Costs, Machine Capacities and Optimal Farm Size,`` September 2017. Yale Growth Center Working Paper no. 1059.

D. Restuccia and R. Rogerson, ``The Causes and Costs of Misallocation,`` Journal of Economic Perspectives, 2017, 31(3), 151-174.

*C. Hsieh and Klenow, P.J. ``Misallocation and Manufacturing TFP in China and India``. QJE 2009, 124, 1403–1448.

----- ``The Life Cycle of Plants in India and Mexico``. QJE 2014, 129, 1035–1084. doi:10.1093/qje/qju014.

(P: Liqun Zhuge: Oct 1) R. Dai, D. Mookherjee, K. Munshi and X. Zhang, [Community Networks and the Growth of Private Enterprise in China](#), Feb 2019.

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.

R. Townsend, ``Risk and Insurance in Village India,`` ETA, 1994.

*W. Rogerson, ``Repeated Moral Hazard,`` ETA 1985.

*S. Coate and M. Ravallion, ``Reciprocity without Commitment: Characterization and Performance of Informal Insurance Arrangements,`` JDE 1993, 40, 1-24. Chapter 14 in MR.

E. Ligon, J. Thomas and T. Worrall, ``Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies,`` RES 2002, 69(1), 209-244.

(P : Siyi Song: Oct 10) D. Karlan, R. Osei, I. Osei-Akoto and C. Udry, "Agricultural Decisions After Relaxing Credit and Risk Constraints," QJE 2014, 129(2), May.

(P : Jimin Oh and Xinyan Chen: Oct 17) M. Mobarak and M. Rosenzweig, "Risk, Insurance and Wages in General Equilibrium," working paper, Yale SOM, June 2014. <http://faculty.som.yale.edu/mushfiqmobarak/papers/geneqm.pdf>

B GOVERNANCE FAILURES

6. Political Competition Frictions: Opportunism, Elite Capture (Oct 22, 24, 29, 31)

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

*T Besley and S Coate, "An Economic Model of Representative Democracy," QJE 1997, 112(1), 85-114.

A. Dixit and J. Londregan, "Redistributive Politics and Economic Efficiency," American Political Science Review 1995, 89(4), 856-866.

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

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

D. Acemoglu and J. Robinson, "Persistence of Power, Elites and Institutions," AER (2008), 98, 267-93.

*F Bourguignon and T Verdier, "Oligarchy, Inequality and Growth," JDE 62, 2000, 285-313.

8. Clientelism (Nov 7)

S. Stokes, "Perverse Accountability: A Formal Model of Machine Politics with Evidence from Argentina," American Political Science Review 2005, 99(3), 315-325.

*P. Bardhan and D. Mookherjee, [Clientelistic Politics and Economic Development: An Overview](#).

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

(^P Nov 8) R. Chattopadhyay and E. Duflo, “Women as Policy-Makers: Evidence from a Randomized Experiment in India,” ETA 2004.

A Banerjee and R. Pande, “Parochial Politics: Ethnic Preferences and Politician Corruption,” working paper, Harvard Kennedy School, 2007.
http://scholar.harvard.edu/files/rpande/files/parochial_politics_0.pdf

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.

(P :Xuchao Gao and Junhao Chen, Nov 26) P. Basurto, P. Dupas and J. Robinson, “Decentralization and Efficiency of Subsidy Targeting: Evidence from Chiefs in Rural Malawi,” [BREAD Working Paper No. 509, April 2017](#).

AND/OR

(^P : Nov 26) V. Hoffman, P. Jakiela, M. Kremer, R. Sheely and M. Goodkin-Gold, “There is No Place Like Home: Theory and Evidence on Decentralization and Politician Preferences”, working paper, <https://scholar.harvard.edu/kremer/publications/there-no-place-home-theory-and-evidence-decentralization-and-politician>

(^P : Dec 3) M. Martinez-Bravo, G Padro Miguel, N. Qian and Y. Yao, “The Rise and Fall of Local Elections in China: Theory and Empirical Evidence on the Autocrat’s Trade-off,” [BREAD Working Paper No. 526, November 2017](#)

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

(^P : Dec 5) E. Duflo, A. Banerjee, C. Imbert, S. Mathew and R. Pande, E-governance, Accountability, and Leakage in Public Programs: Experimental Evidence from a Financial Management Reform in India, [BREAD Working Paper No. 494, October 2016](#).

(^P : Corinne Andriola and Maximiliano Garcia: Dec 10) E. Avis, C. Ferraz and F. Finan, [Do Government Audits Reduce Corruption? Estimating the Impacts of Exposing Corrupt Politicians](#)
July 2016, BREAD Working Paper 485.