

**Microeconomics of Development**  
**Econ 481**  
**Spring 2020**  
**Department of Economics, College of William and Mary**

**INSTRUCTOR:** Prof. Priya Mukherjee  
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**OFFICE HOURS:** Wed: 10 - 11 am  
Fri: 2 - 3 pm  
Or Appointment (just email me for a time to meet)

**Course Description**

This course will cover topics in development economics, focusing on the microeconomics of poverty alleviation. We will cover a range of issues that attract both research and policy attention in the field, from both a theoretical and applied perspective. The goal of this course is to both understand the microeconomic issues surrounding poverty alleviation and the tools researchers use to study these issues. Thus, we will pay careful attention to the methods and approaches used in the articles that we study.

**Prerequisites**

The main prerequisite for this course is Intermediate Microeconomic Theory. A background in econometrics is also useful but not required. Some econometrics is useful to understand the empirical papers we will study, and to do the problem sets. An outline of the techniques will be taught at the beginning of the semester (and elsewhere as required). You should also take advantage of office hours if you need additional help with methods.

**Grading Policy**

Grades in this course will be based on the following:

1. The top 5 grades out of six problem sets (40%). Problem sets will be due in class. **No late problem sets will be accepted**, including problem sets turned in after class on the due date.

2. 1 midterm exam (30%), to be held in class on **March 18, Wednesday (this is the Wednesday after Spring break)**.
3. Final Exam (30%), taking place **on May 4 in class (not cumulative, except for the empirical methods lecture content taught at the start of the semester)**. The timings are posted at <https://www.wm.edu/offices/registrar/calendarsandexams/examschedules/spring20exam/index.php#start>. Note that:
  - (a) The final exam is mandatory. **No makeup midterms or final exams will be offered.**
  - (b) Make-up final exams will be available only in extraordinary circumstances with documentation from the dean of students office.
  - (c) You must take the exam on **the date and time assigned to your own section**. Any changes must be requested **at the start of the semester**.

If you are eligible for accommodations on exams, please contact Student Accessibility Services as soon as possible to set up an appointment (on the exam date) at the Watson lab. They will help develop and implement a plan for exams. It is the student's responsibility to contact them early on. If this applies to you, please begin the process weeks before the first exam.

It is the policy of The College of William & Mary to accommodate students with disabilities and qualifying diagnosed conditions in accordance with federal and state laws. Any student who feels s/he may need an accommodation based on the impact of a learning, psychiatric, physical or chronic health diagnosis should be referred to Student Accessibility Services staff at 757-221-2509 or at sas@wm.edu. SAS staff will work with you to determine if accommodations are warranted, and if so, to help you obtain an official letter of accommodation.

4. Regular class participation is not explicitly graded, but you are strongly encouraged to ask questions during class.

### **Grading**

While we take care to grade as fairly and consistently as possible, on rare occasions there may be grading mistakes. If you feel that your test has been graded incorrectly, you must submit it to the professor, along with an explanation of the issue. You must do this within 2 weeks of the exam being returned (not the date you pick it up) for it to be regraded. The entire exam will be regraded, and as a result it is possible for your grade to go down as well as up.

### **Blackboard**

The blackboard site contains the most recent electronic version of this syllabus. Problem sets, problem set and exam solutions, and handouts will also be posted. Announcements will also be made via Blackboard. However, not that since instructions and smaller announcements are also made in class, it is your responsibility to make sure you are up to date on what is discussed in class.

### **Slides/Handouts**

Most topics we cover in class will have accompanying slides. These slides will be posted on Blackboard about one week before we start each topic. While we do our best to proofread the slides carefully, mistakes are occasionally discovered during class. If this happens, I will post an updated version after class.

Bear in mind that you are responsible for all material covered in lecture, regardless of whether it appears on the slides. Reading the slides should not be viewed as a substitute for coming to class.

### **Readings / Outline**

There is no “required” textbook for this class. You are responsible for several chapters in *Development Economics* by Debraj Ray and *The Economics of Microfinance, Second Edition* by Beatriz Armendariz and Jonathan Morduch, but it is up to you whether you want to buy these books. Relevant chapters from Ray will be linked on Blackboard.

There are also several recommended and supplemental readings from three popular press books: *Poor Economics* by Banerjee and Duflo; *Portfolios of the Poor* by Collins, Morduch, Rutherford and Ruthven; and *Banker to the Poor* by Muhammed Yunus. The Banerjee and Duflo book is especially recommended, as it provides a clear and accessible treatment of several of the topics that we will be covering. The latter two books give some interesting background for our discussion of microfinance.

We will also cover a number of journal articles. Some of these articles contain technical material beyond the scope of this course. As you read these articles, it is important to understand the research questions, the approach and the main findings. You do not need to understand the statistical techniques not covered in lecture, but you should be able to read and understand the main results.

Finally, during the health unit we will watch the documentary “The Name of the Disease” in class. I will also recommend several other documentary and fictional films that are related to the topics we will cover.

### **Course Outline**

There are three different types of readings:

- Required readings, marked below with \*\*. These will be covered in depth during lecture, and you will be responsible for the material covered in these readings (to the extent that they are covered in class).
- Recommended readings, marked with \*. We may only discuss parts of these during lecture. Again, you are responsible only for the parts covered in lecture.
- Supplemental readings. We will generally not cover these in detail, but they are included in the list below for those of you interested in learning more about a particular topic. (You are still responsible for any parts covered in lecture).

I will provide you with links to the articles listed below and you will be able to access these through the Library. Lecture slides will also be provided for each topic.

## 1. Introduction / Measuring Poverty

\*\*World development indicators 2008, 2008. URL <http://siteresources.worldbank.org/DATASTATISTICS/Resources/WDI08supplement1216.pdf>

\*Angus Deaton. Measuring poverty. Princeton Research Program in Development Working Paper, 2004. URL [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=564001](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=564001)

\*\*Abhijit V. Banerjee and Esther Duflo. The economic lives of the poor. *Journal of Economic Perspectives*, 21(1):141–167, 2007b.

Chap. 1-2 in Collins et al. [2009] Sections 8.1-8.3 in Ray [1998]

Martin Ravallion and Shaohua Chen. Dollar a day revisited. World Bank Policy Research Working Paper 4620, 2008. URL [http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/09/02/000158349\\_20080902095754/Rendered/PDF/wps4620.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/09/02/000158349_20080902095754/Rendered/PDF/wps4620.pdf)

Angus Deaton and Valerie Kozel. Data and dogma: The great indian poverty debate. *World Bank Research Observer*, 20:177–199, 2005.

The Millennium Development Goals Report 2009, United Nations, 2009. <http://www.un.org/millenniumgoals/pdf/MDG%20Report%202009%20ENG.pdf>

Human Development Report 2007-2008: Human Development Indicators, United Nations Development Programme, 2008. [http://hdr.undp.org/en/media/HDR\\_20072008\\_EN\\_Complete.pdf](http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf)

## 2. Empirical methods: a primer

\*\*Class Notes

### 3. Health and Nutrition

Health and health care

\*\*Abhijit Banerjee, Arundhati Tuli Banerjee, Bappa Sen, Konkona Sen Sharma, and Sumit Ghosh. *The name of the disease*. DVD, 2006

\*\*Abhijit Banerjee, Angus Deaton, and Esther Duflo. Wealth, health, and health services in rural Rajasthan. *The American Economic Review*, 94(2):326–330, May 2004.

Abhijit Banerjee and Esther Duflo. Aging and death under a dollar a day. NBER Working Paper 13683, 2007a.

The impact of poor health on development: microeconomic poverty traps

\*Chap 3 in Banerjee and Duflo, *Poor Economics*

\*Pascaline Dupas. Global health systems: Pricing and user fees. Mimeo, UCLA, 2011. URL [http://www.stanford.edu/~pdupas/Dupas\\_Pricing&UserFees.pdf](http://www.stanford.edu/~pdupas/Dupas_Pricing&UserFees.pdf)

\*\* (lecture slides)

\*Chap. 2 in Banerjee and Duflo, *Poor Economics*

Chap. 13 in Ray, 1998

### 4. Education

#### (a) Overview

\*\*Anne Case. *The primacy of education*. In Abhijit V. Banerjee, Roland Benabou, and Dilip Mukherjee, editors, *Understanding Poverty*, chapter 18. Oxford University Press, 2006. URL [http://www.princeton.edu/rpds/papers/pdfs/case\\_primacy\\_education.pdf](http://www.princeton.edu/rpds/papers/pdfs/case_primacy_education.pdf)

\*\*George Psacharopoulos and Harry Anthony Patrinos. Returns to investment in education: a further update. *Education Economics*, 12(2):111–134, 08 2004.

\*\*Esther Duflo. Schooling and labor market consequences of school construction in indonesia: Evidence from an unusual policy experiment. *The American Economic Review*, 91(4):795–813, Sep. 2001.

\*ASER Centre. *Annual Status of Education Report*. Pratham Resource Center: Mumbai, 2010. URL <http://asercentre.org>

\*\* (Reading 1) The (Perceived) Returns to Education and the Demand for Schooling  
Robert Jensen *The Quarterly Journal of Economics*, Volume 125, Issue 2, 1 May 2010, Pages 515–548

\*Chap 4 in Banerjee and Duflo, *Poor Economics*

(b) Interventions to improve education

\*\*T. Paul Schultz. School subsidies for the poor: Evaluating the mexican progres a poverty program. *Journal of Development Economics*, 74(1):199–250, 2004.

\*\*Abhijit V. Banerjee, Shawn Cole, Esther Duflo, and Leigh Linden. Remedying education: Evidence from two randomized experiments in india. *Quarterly Journal of Economics*, 122(3):1235–1264, 2007.

(c) Child Labor

\*\*Christopher Udry. Child labor. In Abhijit V. Banerjee, Roland Benabou, and Dilip Mukherjee, editors, *Understanding Poverty*, chapter 16. Oxford University Press, 2006. URL <http://www.econ.yale.edu/~cru2/pdf/kid.pdf>

\*\*Eric V. Edmonds and Nina Pavcnik. Child labor in the global economy. *The Journal of Economic Perspectives*, 19(1):199–220, Winter 2005.

Kaushik Basu. Policy dilemmas for controlling child labor. In Abhijit V. Banerjee, Roland Benabou, and Dilip Mukherjee, editors, *Understanding Poverty*, chapter 17. Oxford University Press, 2006.

5. Land

\*\*Chap. 11 and 12 in Ray [1998]

\*Abhijit V. Banerjee, Paul J. Gertler, and Maitreesh Ghatak. Empowerment and efficiency: Tenancy reform in west bengal. *The Journal of Political Economy*, 110(2):239–280, Apr. 2002.

\*Mookherjee AEJ: Applied

Joseph E. Stiglitz. Incentives and risk sharing in sharecropping. *The Review of Economic Studies*, 41(2):219–255, Apr. 1974.

6. Gender and Family

\*Shelly Lundberg, Robert Pollak, and Terence Wales. Do husbands and wives pool their resources? evidence from the united kingdom child benefit. *Journal of Human Resources*, 32(3):463–480, 1997.

\*Christopher Udry. Gender, agricultural production, and the theory of the household. *The Journal of Political Economy*, 104(5):1010–1046, 1996.

\*Esther Duflo. Grandmothers and granddaughters: Old-age pensions and intrahousehold allocation in south africa. *World Bank Economic Review*, 17(1):1–25, 2003.

Esther Duflo and Christopher Udry. Intrahousehold resource allocation in cote d'ivoire: Social norms, separate accounts and consumption choices. NBER Working Paper 10498, 2004.

\*\*Nancy Qian. Missing women and the price of tea in china: The effect of sex-specific earnings on sex imbalance. *Quarterly Journal of Economics*, 123(3):1251–1285, 2008. doi: 10.1162/qjec.2008.123.3.1251.

\*Vijayendra Rao. The rising price of husbands: A hedonic analysis of dowry increases in rural india. *The Journal of Political Economy*, 101(4):666–677, 1993.

Elaina Rose. Consumption smoothing and excess female mortality in rural india. *The Review of Economics and Statistics*, 81(1):41–49, 1999.

The worldwide war on baby girls: Technology, declining fertility and ancient prejudice are combining to unbalance societies. *The Economist*, March 4 2010a. URL <http://www.economist.com/node/15636231>

## 7. Risk, Savings and Insurance

\*Chap. 3-4 in Collins et al. [2009] \*Christina H. Paxson. Using weather variability to estimate the response of savings to transitory income in thailand. *The American Economic Review*, 82(1):15–33, 1992.

\*\*Nava Ashraf, Dean Karlan, and Wesley Yin. Tying odysseus to the mast: Evidence from a commitment savings product in the Philippines. *Quarterly Journal of Economics*, 121(2): 635–672, 2006. URL <http://people.hbs.edu/nashraf/qjec20061212.pdf>

Jonathan Morduch. Microinsurance: The next revolution? In Abhijit V. Banerjee, Roland Benabou, and Dilip Mukherjee, editors, *Understanding Poverty*, chapter 22. Oxford University Press, 2006. URL <http://dri.as.nyu.edu/docs/I0/12607/DRIWP12.pdf>

Robert M. Townsend. Risk and insurance in village india. *Econometrica*, 62(3):539–591, May 1994. URL

Chap. 15 in Ray [1998]

## 8. Credit, Credit Constraints and Microcredit

\*Chap. 7 in Banerjee and Duflo, *Poor Economics*

\*Chap. 5 in Collins et al. [2009]

### (a) Credit Constraints

\*\*Chap. 14 in Ray [1998]

\*\*Chapters 1-2 in Beatriz Armendariz and Jonathan Morduch. *The Economics of Microfinance*, Second Edition. MIT Press, 2010

Robert Townsend. Credit, intermediation, and poverty reduction. In Abhijit V. Banerjee, Roland Benabou, and Dilip Mukherjee, editors, *Understanding Poverty*, chapter 23. Oxford University Press, 2006. URL [http://cier.uchicago.edu/papers/published/Credit\\_Intermediation\\_072004.pdf](http://cier.uchicago.edu/papers/published/Credit_Intermediation_072004.pdf)

(b) Microcredit

\*\*Chapters 4-5 in Beatriz Armendariz and Jonathan Morduch. *The Economics of Microfinance*, Second Edition. MIT Press, 2010

\*Chapters 8-10 in Beatriz Armendariz and Jonathan Morduch. *The Economics of Microfinance*, Second Edition. MIT Press, 2010

\*Abhijit Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. The miracle of microfinance? evidence from a randomized evaluation. Mimeo, Jameel Poverty Action Lab, October 2010. URL <http://www.povertyactionlab.org/publication/miracle-microfinance-evidence-randomized-evaluation>

\*Under water: The very future of microcredit in India is in danger, which is a shame for the country's poor. *The Economist*, December 9 2010b. URL <http://www.economist.com/node/17675848>

Muhammad Yunus. *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. PublicAffairs, 2003 Dean Karlan and Jonathan Zinman. Expanding microenterprise credit access: Using 9 randomized supply decisions to estimate the impacts in manila. Mimeo, Dartmouth, 2010. URL [http://www.dartmouth.edu/~jzinman/Papers/expandingaccess\\_manila\\_jan2010.pdf](http://www.dartmouth.edu/~jzinman/Papers/expandingaccess_manila_jan2010.pdf)

Beatriz Armendariz de Aghion and Jonathan Morduch. Microfinance: Where do we stand? In Charles Goodhart, editor, *Financial development and Economic Growth: Explaining the Links*, chapter 5. Palgrave Macmillan, 2004. URL [http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance\\_Where\\_Do\\_We.pdf](http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance_Where_Do_We.pdf)

Jonathan Morduch. The microfinance promise. *Journal of Economic Literature*, 37(4): 1569–1614, Dec. 1999.

Chap. 6 in Collins et al. [2009]

9. Corruption, Politics, and Institutions

\*Andrei Shleifer and Robert W. Vishny. Corruption. *The Quarterly Journal of Economics*, 108(3):599–617, 1993.

\*Benjamin A. Olken. Monitoring corruption: Evidence from a field experiment in indone-



sia. *Journal of Political Economy*, 115(2):200–249, 2007. doi: 10.1086/517935.

\*Frederico Finan & Benjamin A. Olken & Rohini Pande, 2015. "The Personnel Economics of the State," NBER Working Papers 21825, National Bureau of Economic Research, Inc.

\*Dell, M (2010). The Persistent Effects of Peru's Mining Mita. *Econometrica*, Vol. 78, No. 6 (November, 2010), 1863–1903

Paolo Mauro. Corruption and growth. *The Quarterly Journal of Economics*, 110(3):681–712, 1995.

Simeon Djankov, Rafael La Porta, Florencio Lopez-de Silanes, and Andrei Shleifer. The regulation of entry. *The Quarterly Journal of Economics*, 117(1):1–37, 2002. Benjamin A. Olken and Patrick Barron. The simple economics of extortion: evidence from trucking in Aceh. *Journal of Political Economy*, 117(3):417–452, 2009.