Microeconomics of Development

Econ 240

Meherun Ahmed
320 Willis Hall
Email: mahmed@carleton.edu
Office Hours**: T 3:30-5:30 and W 10:30-12:30 (and by appointment)**

Course Objectives

While some countries in the world grew at an unprecedented rate in the last fifty years, others were caught in abject poverty, severe income inequality and stagnation. Even those countries that have experienced economic growth, the economic changes were not always translated into proportional social changes and wellbeing. Again some poor countries made enormous strides in terms of achieving greater social changes in the presence of sluggish economic growth. This course begins by exploring the concepts of development and reviewing the relationship between poverty, inequality, economic growth and development. We will use economic principles to explore and analyze the core issues of economic development in that affects more than five billion people living in the developing world, with a particular emphasis on the decision making process of these poor households.

The general objectives of this course are:

- To advance your understanding of the microeconomic theory underlying development economics
- To enhance your ability to analyze the behavior of poor households and understand the effectiveness of various policies in the developing countries
- To advance your knowledge of the empirical literature investigating various decisions of the households and develop your research interests/ideas.

Prerequisites:

Economics 110 and 111. In addition it will be useful to have some background in statistics/econometrics. For those with a weak background in these areas, I will offer an introductory session on econometrics beginning of the term. The course complements Economics 241.

Format, Assignments and Grades:

The class meets every Tuesdays and Thursdays during the winter term. Each class will include lectures, discussions and student presentation. You are expected to attend class and participate in the discussion. We will also have guest speakers who will share their developing country experience with the class.

There will be only one midterm exam and **no** final exam. You will be required to write a literature review on a topic of your choice, write two critiques of journal articles; analyze a news article and present a country report. The assignments are uploaded in class webpage. The distribution of points:

Midterm 20%
Critique 1 10%
Critique 2 10%

Country Report and Report Presentation 10%
Newspaper Project 10%
Literature Review 20%
Assignment One 10%
Assignment Two 10%

I do not give make-ups unless you have a Carleton sanctioned excused absence (e.g., emergency room visit with a doctor's note). So, if you miss the midterm, you will receive a zero for that part of the course. Also, late assignments/papers will not be accepted.

Exam and Due Dates for Assignments	
Midterm	
Newspaper Article Project	
Assignment One	
Assignment Two	
Country Report	
Critique I	
Critique II	
Literature Review	

Critiques of Papers:
The critiques should be max 3 pages, and should include a summary of the paper and the main results, a discussion of how this piece of research fits into and contributes to the literature, a critique of the methods and/or approach (which need not be negative, but should be analytical), and suggestions for further research. The purpose of this assignment is to develop your ability to read closely and analyze critically recent research, and also to develop a sense of how good research builds on existing knowledge and points to future breakthroughs.
Your critique should address the following questions:

What is the objective of the paper?
What are the specific hypotheses that the author is testing?
Is the estimation technique appropriate? If not, how does this affect the interpretation of the results?
Do you agree with the author's interpretation of the results?
How does this paper contribute to the literature?
Would you do anything differently if you were writing this paper now? What would you do?

Country Report:
I expect that you will become our class expert for one country assigned through a random draw. For each of the topics that we look at you should read up especially on the situation for your country for that topic. In developing this expertise you will be able to get more out of the readings, and you will also be a resource for the rest of the class who will then

be able to call on you for your evaluation of the situation in your country. In this way we will learn about almost all the development issues and problems facing 25 countries of the world!
You are required to present the country report in the class. Each presentation is about 15 minutes followed by a Q&A session of 5 minutes.

Newspaper Article Report:
I would like you to find a newspaper or magazine article related to the issues covered in class on your assigned country and explain the importance of the news using your economics background. So,
Find an article that interests you.
Briefly summarize the main points of the article.
Explain using the tools learnt in Econ 110, Econ 111 and Econ 240, why the issue in the article is important. What can you predict regarding that phenomenon? Can you suggest any solution to the issue or predict any outcome that is most likely to occur because of this particular event?
Were the conclusion drawn in the article correct? If not, why not? If yes, explain why?
Page limit: Max 2 pages.
Most developing countries have online English newspapers. The World Bank, IMF and UN web pages might also have some useful links. Google your country and you'll be amazed!

Literature Review:
You will be expected to write a 5-7 page literature review on a topic of your choice. More specifically what sort of issues/hypotheses were addressed under this broad topic, how the literature evolved theoretically and estimation technique wise, and what issues still needs to be addressed/researched. You have to choose your topic and inform me by the end of the second week of the term. More ambitious papers involving testing a new hypothesis using household or individual level data are of course welcome. I would be happy to assist you in finding appropriate data and help you with empirical estimation.

Organization of Topics: I have organized this course roughly into fourteen general topics that will take about a week each to cover. I have included the assigned readings from the text. You will be held responsible for any assigned readings, even if I do not address a particular section in class. Go to moodle.carleton.edu and sign in using your Carleton ID. Click on Econ240 and you'll find a lot of information about the course.

Topics and Readings

Introduction

United Nations Development Programme, "Defining and Measuring Human Development," Human Development Report, 1990, pp. 9-16.
http://hdr.undp.org/reports/global/1990/en/

Introduction to Regression Analysis

Poverty, Inequality, Growth and Development

Debraj Ray, "Economic Growth," *Development Economics*, chapter 3 – just pp. 47 – 64 and 74 - 90.

Bardhan, Pranab, "economics of development and the development of economics ' Journal of economic perspective, 7 (2), 1993, 129-142

Deaton, Angus (2001): "Counting the World's Poor: Problems and Possible Solution," *World Bank Research Observer*, 16(2), pp. 124-147.

Ravallion, Martin (2001): "Comment on Counting the World's Poor," *World Bank Research Observer*, 16(2), pp. 149-156.

Intra-household Allocation

Strauss, J. and K. Beegle. 1996. "Intrahousehold Allocations: A Review of Theories, Empirical Evidence and Policy Issues." *Michigan State University International Development Working Paper 62* www.aec.msu.edu/agecon/.*

Quisumbing, A. and J. Maluccio. 2003. "Resources at Marriage and Intrahousehold Allocation: Evidence from Bangladesh, Ethiopia, Indonesia and South Africa." *Oxford Bulletin of Economics and Statistics* 65(3):283-327.*

Hoddinott, J. and L. Haddad. 1995. "Does Female Income Share Influence Household Expenditure? Evidence from Cote d'Ivoire." *Oxford Bulletin of Economics and Statistics* 57(1):77-96.

Duflo, E. 2003. "Grandmothers and Granddaughters: Old-Age Pensions and Intrahousehold Allocation in South Africa." *World Bank Economic Review* 17(1):1-25.*

Child Health and Mortality
(a) What Determines Child Health and Survival?

Duncan Thomas, John Strauss, and Maria Helena Henriques. Child survival, height for age and household characteristics in Brazil. Journal of Development Economics, 33(2):197–234, 1990.

Paul Glewwe. Why does mother's schooling raise child health in developing countries? Evidence from Morocco. Journal of Human Resources, 34(1, Winter):124–159, 1999.

(b) The Effects of Poor Nutrition

Paul Glewwe and Elizabeth M. King. The impact of early childhood nutritional status on cognitive development: Does the timing of malnutrition matter? World Bank Economic Review, 15(1):81–113, 2001.

Miguel, Edward and Michael Kremer (2004) "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities", *Econometrica*, 72 (1), 159-217

Human Capital
• Supply and demand for schooling, determinants and effects of child labour.

Paul Glewwe. Schools and skills in developing countries: Education policies and socioeconomic outcomes. Journal of Economic Literature, 40(2):436–82, 2002.

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

Martin Ravallion and Quentin Wodon (1999), "Does Child Labor Displace Schooling? Evidence on Behavioral Responses to an Enrollment Subsidy," *Economic Journal* 110 (462), Conference volume, March 2000, C158 – C175.

A guide to web resources on child labor issues:
http://www.natlconsumersleague.org/kidlabur.htm.

If you have more of an interest you can also read:

Pritchett, Lant, "Where has all the education gone?" Policy Research Working Paper 1581, World Bank 1996 (http://econ.worldbank.org/files/301_wps1581.pdf)

Duflo, Esther (2001), "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment" *American Economic Review*, Vol. 91 (4), pp 795-813.

M. Wasserman, "Eliminating Child Labor," Regional Review (Second Quarter 2000), Federal Reserve Bank of Boston, pp. 151-8.
http://www.bos.frb.org/economic/nerr/rr2000/q2/kidlabor.htm

M. Kremer et al., "Teacher Absence in India: A Snapshot," Journal of the European Economic Association (April-May 2005), pp. 658-667. (e-reserves)

A. Banerjee and E. Duflo, "Addressing Absence," Journal of Economic Perspectives (Winter 2006), pp. 117-132.

Credit Markets and Rural Financial Institutions
• Incomplete markets, smoothing consumption.

Pitt, M. and S. Khandker. 1998. "The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?" *Journal of Political Economy* 106(5):958-96.

Jonathan Morduch (2000), "The Microfinance Schism," *World Development*, April.

Freedom from Hunger: www.freefromhunger.org
Pro Mujer: www.promujer.org
ACCION International: www.accion.org
Consultative Group to Assist the Poorest: www.cgap.org

Aleem, Irfan, "Imperfect Information, Screening and the Costs of Informal lending: A Study of a Rural Credit Market in Pakistan", World Bank Economic Review, 3, 329-349, 1990

Morduch, Jonathan (1999), "The Microfinance Promise," *Journal of Economic Literature*, Vol. 37 (4), pp. 1569-1614.

Udry, Christopher. (1990). "Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy," *World Bank Economic Review*, 4(3), 251-269.

Miguel, Edward. (2005). "Poverty and Witch Killing", *Review of Economic Studies*, 72(4), 1153-72.

Chaudhuri (1993) "Crop Choice, Fertilizer Use and Credit Constraints: An Empirical Analysis" Manuscript, Princeton

Jonathan Morduch. Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh. Mimeo, New York University, NYC, NY, June 1998.

Mark M. Pitt. Reply to Jonathan Morduch's "Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh". Mimeo, Brown University, Providence, RI, October 1999.

Migration

Lucas, R. 1985. "Migration amongst the Batswana." *Economic Journal* 95(2):358-82.*

Stark O. and J. E. Taylor. 1991. "Migration Incentives, Migration Types: The Role of Relative Deprivation." *Economic Journal* 101(4):1163-78.*

Davis, B. and P. Winters. 2001. "Gender, Networks and Mexico-US Migration." *Journal of Development Studies* 38(2):1-26.

Population, Fertility

Ray – Chapter 9: Population Growth and Economic Development

Kohler, H.; J. Behrman and S. Watkins. 2001. "The Density of Social Networks and Fertility Decisions: Evidence from South Nyanza District, Kenya." *Demography* 38(1):43-58.*

Lindstrom, D. "The role of contraceptive supply and demand in Mexican fertility decline: Evidence from a microdemographic study", *Population Studies* 52(3):255-74.*

Food Security, Hunger and Nutrition

Effects of income on nutrition, effects of nutrition on income.

John Strauss and Duncan Thomas. Health, Nutrition, and Economic Development. Journal of Economic Literature, 36(2):766–817, 1998.

Marini, Alessandra and Michele Gragnolati, "Malnutrition and Poverty in Guatemala", World Bank Policy Research Working Paper 2967, January 2003

Haddad, L. et al. 2003. "Reducing Child Malnutrition: How Far Does Income Growth Take Us?" *World Bank Economic Review* 17(1):107-31.*

Smith, L., M. Ruel, and A. Ndiaye. 2004. "Why Is Child Malnutrition Lower in Urban than Rural Areas? Evidence from 36 Developing Countries." *IFPRI FCND Discussion paper no. 176*, Washington, DC: IFPRI

The Impact of HIV/AIDS

Tomas Philipson and Richard A. Posner. The microeconomics of the AIDS epidemic in africa. Population and Development Review, 21(4):835–848, December 1995.

Damien De Walque. How does the impact of an HIV/AIDS information campaign vary with educational attainment? Evidence from rural Uganda. World Bank Policy Research Working Paper 3289, World Bank, Washington, DC, April 2004, not the appendices.

Meier, Gerald M., and James E. Rauch. (2005). "Selection IV.B.3: Confronting AIDS", in *Leading Issues in Economic Development, Eight Edition*. Oxford University Press, pp. 231-239.

Fox, Matthew, et al. (2004). "The Impact of HIV/AIDS on Labour Productivity in Kenya", *Tropical Medicine and International Health*, 9(3), 318-324.

Deon Filmer, Jeffrey Hammer, and Lant Pritchett, "Health Policy in Poor Countries: Weak Links in the Chain," World Bank Policy Research Working Paper 1874, January 98, pp. 1 – 63.

John Gallup and Jeffrey Sachs, "The Economic Burden of Malaria," Kennedy School CID, Harvard University, working paper, October 1998, pp. 1- 20. [www2.cid.harvard.edu/cidpapers/mal_wb.pdf]

World Development Report 2001, "AIDS and poverty," box 8.2, page 139.

Hazem Adam Ghobarah, Paul Huth, Bruce Russett.2 004. "Comparative Public Health: The Political Economy of Human Misery and Well-Being." International Studies Quarterly. 48: 1

Alex de Waal. 2003. "How will HIV/ AIDS transform African Governance?" in: Africa Affairs 102: 1-23.