

# ECO 403H1S

## TOPICS IN DEVELOPMENT ECONOMICS AND POLICY

Department of Economics  
University of Toronto

Winter 2016

**Meetings:** Monday 2:10 pm - 4:00 pm; Friday 2:10 pm - 3:00 pm

**Location:** Innis College, Room 204 (IN204)

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### COURSE DESCRIPTION

This course will examine a variety of issues and policy problems pertaining to current international development challenges. Topics will include human capital development, financial markets, governance and institutions, industrial and international trade policies. We will study how well current domestic and foreign policies achieve stated objectives and discuss current proposals for improvements in international development policy.

The course will have an emphasis on the use of economic theory and quantitative empirical methods for policy analysis and evaluation. Students will apply tools such as poverty measurement, targeting, and program evaluation methodologies to concrete questions in the current development policy agenda.

### PREREQUISITES

Microeconomic Theory – ECO200Y/204Y/206Y

Macroeconomic Theory – ECO202Y/208Y/209Y

Quantitative Methods in Economics – ECO220Y/227Y/STA(247H,248H)/(250H, 255H)/(257H, 261H)

Note: Prerequisites are strictly checked and enforced and must be completed before taking this course. By taking this course you acknowledge that you will be removed from the course at anytime if you do not meet all requirements set by the Department of Economics. Please talk to Ms. Robbie Innes (Undergraduate Administrator, Department of Economics) if you have any doubt about whether you meet the requirements.

I expect that you will be able to perform basic calculus (i.e., take simple partial derivatives) and have a basic understanding of game theory. The TA will offer brief reviews of the more advanced background material.

### REQUIREMENTS

#### Graded Material and Grade Allocation

The final grade for the course is based on the following:

<u>Percentage</u>	<u>Component</u>	<u>Date(s)</u>
30%	Three (3) assignments (10%, 10%, 10%)	Assignment 1: 25 January Assignment 2: 8 February Assignment 3: 14 March
20%	One (1) in-class term test	Midterm: 29 February
30%	One (1) class presentation and paper	28 March, 1 <sup>st</sup> , 4 April (Paper: 11 April)
20%	Final Exam	TBD
Bonus 5%	Class participation	n/a

## COURSE POLICIES

### Examinations (Midterm and Final):

The centerpiece of the tests will be the theoretical and empirical analysis of economic development issues in the context of the course readings and class discussions. **The final examination will be cumulative.**

### Appeals Policy:

Appeals will be conducted according to the following procedure:

- For any test, if a student wishes to appeal a grade, he/she must provide a **written explanation** of why they believe their grade is mistaken, and submit it to me *within one week of being returned to the class*.
- (Conditional on this argument being found persuasive by the instructor), it is likely that the *entire* exam will be re-graded, and the appealed grade can be lower or higher than the original grade. Note: This does not apply to trivial appeals such as points being added incorrectly.

### Policy on Missed Tests

**Midterm Exam:** A grade of zero will be given to students who do not write the midterm test, unless an **appropriate and convincing** note is received **within one week** of the missed test (explaining why the test was missed).

If the student misses a term test due to illness:

- The note must be provided using the University of Toronto medical certificate. No other documentation will be accepted. You can find a copy of the form here: <http://www.healthservice.utoronto.ca/pdfs/medcert.htm>
- The form must be completed by a Medical Doctor, and include the doctor's OHIP registration number.
- Only original notes will be accepted. I will not accept photocopies or emailed certificates.
- The note must clearly state that on the date of the test, the student was too sick to write the test. Notes that simply state that a doctor saw the student on the date of the midterm will not be accepted. Illness before the test is not sufficient grounds for missing the test. Nor will I accept notes that indicate that the student would have performed "sub-optimally".
- To comply with these requirements, it is expected that the student will have met with the doctor on the date of the test.
- **The student must email me the day of the test to indicate that they will not be able to write the test.**

- I will review each sick note to determine whether there are sufficient grounds for a student to be excused from a test. Part of this review process may include meeting with the student, and/or following up with a physician.
- It is an academic offense to feign illness to avoid a test.

If the student misses a term test due to another excused absence (e.g., funeral, car accident):

- The note must be accompanied by a note from a responsible third party that I can verify *in order for excusal to even be considered*. The validity of the excuse will also be evaluated by academic staff in the Department of Economics.

If a student has been excused from a midterm exam, he or she will be permitted to write the make-up test. The make-up test will be held on Friday, March 11<sup>th</sup>, 3:30p - 5:00p.

- Consistent with university policy, there is no “make-up test” for the make-up test. No medical excuses will be accepted, and a grade of zero will be applied if a student fails to write the make-up test.

**Final:** The final will be governed by the University’s rules for missing final examinations.

### **Group Project Assignments**

In order to develop skills in quantitative / statistical methods (of various empirical strategies), and to interpret and discuss theoretical concepts and empirical evidence, students must complete three related assignments. Details will be announced throughout the semester.

- Term Assignments 1 and 2: Students will be provided data and assigned a set of questions based on those data and asked to conduct an analysis of it in the context of a specific policy question. The assignment is expected to be (maximum) *six* pages in length (double spaced), plus tables (if appropriate).
- Term Assignment 3: Research Project Review - students will select a research project from a short predetermined list and hand in a short piece that will:
  - establish a policy research question;
  - briefly survey an existing literature that addresses it;
  - describe a planned research project to address the question (data; design).
- Term Assignment 4: Presentation and Paper – the first component will be comprised of a short (20-25 minute) class presentation (with time at the end for questions and discussion) built around 10-12 slides. The presentation will:
  - establish the policy research question;
  - *briefly* survey an existing literature that addresses it;
  - describe a research project conducted to address the question (data; methodology);
  - present an analysis of data to help answer this policy question.

The policy paper will incorporate feedback from Assignments 2 (the Project Review) and 3 (the Presentation) to elaborate on its details. Specifically, you should discuss the following:

- What is the main question?
- How does the project contribute to the literature?
- What is the research design and the empirical strategy?
- What are the main results?
- What are the policy implications of the project?
- What are some of the drawbacks of the research design / project?
- Are there alternative explanations for the empirical results?

Other administrative details:

- All students must meet with me (during office hours) to discuss the research project by March 15<sup>th</sup> (end of Week 9).
- Presentation slides are due by midnight (12:00am), the night before class presentations. No medical notes will be accepted for the slides.
- The due date for the paper is April 11<sup>th</sup> at 9:00 am.
- Further details of the assignment itself will be provided during the semester.
- Concerning late penalties for other components: assignments handed in after 9:10am of their due date will be penalized by 10 percentage points per business day. I will not accept assignments after 4:00pm of the Friday following the due date.
- Extensions to the deadline for the assignments will not be granted for any reason.

### **Class Participation (Bonus)**

Students will be evaluated on class participation. The performance will largely be based on students having read required readings prior to class and being prepared to engage in a meaningful discussion on the articles during class time.

### **Practice Questions**

I will periodically assign questions and problem sets on the webpage. While these questions will not be collected for grading, you are expected to complete them. If you have any problems with the questions from a particular section, please see me about them as soon as possible during office hours.

### **COURSE WEBSITE**

The course website is on the UofT Blackboard Portal:

*Winter-2016-ECO403HIS-LEC0101: Top Dev Eco Policy*

The website is an important means by which I make announcements to the class, as well as distribute additional readings and practice questions. We will be using Blackboard to manage class communications, so it is vital that you log on to Blackboard and provide an email address that you check regularly.

### **E-MAIL POLICY**

I will do my best to respond to e-mail within 24 hours on a weekday, 48 hours on a weekend, according to the following policy:

- a) I will only respond to e-mails posing questions that can be answered in a sentence or two. For detailed questions, please see me in office hours.
- b) I will not reply to e-mails that request information that can be found on the website or the syllabus, so you should check those places first.
- c) I will not reply to e-mails regarding the results of graded material – for that, please see me in office hours.

### **ACADEMIC MISCONDUCT**

Students should note that copying, plagiarizing, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging

from a mark of zero on the assignment, test or examination to dismissal from the university as outlined in the academic handbook. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties.

As a student it is your responsibility to ensure the integrity of your work and to understand what constitutes an academic offence. If you have any concerns that you may be crossing the line, always ask your instructor. Your instructor can explain, for example, the nuances of plagiarism and how to use secondary sources appropriately; he or she will also tell you what kinds of aids -- calculators, dictionaries, etc. -- are permitted in a test or exam. **Ignorance of the rules does not excuse cheating or plagiarism.** For more information regarding the Code of Behaviour on Academic Matters please visit (<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>).

## OFFICE HOURS

Tuesday 3:30p – 4:30p (preliminary)

## CLASS SCHEDULE – WINTER 2016

### Section 1: Social Welfare and Development

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|---|------------|--|
| 1 | January 11 | Overview   |
| 2 | January 18 | Social Welfare, Poverty, and Growth<br><i>Assignment 1 Distributed</i> |
| 3 | January 25 | Credit and Insurance<br><i>Assignment 1 Due</i>                        |

### Section 2: Investments, Human Capital Accumulation

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|---|--------------------------|--|
| 4 | February 1 <sup>st</sup> | Human Capital (Education)<br><i>Assignment 2 Distributed</i>     |
| 5 | February 8               | Human Capital, Gender, Race/Ethnicity<br><i>Assignment 2 Due</i> |

### Section 3: Role of the State and Governance

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|---|-------------|--|
| 6 | February 22 | Democracy and Development<br>Representation, Responsiveness, and Accountability<br><i>Assignment 3 Distributed</i> |
| 7 | February 29 | Midterm  |

### Section 4: International Macroeconomics and Structure

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|----|----------|---|
| 8  | March 7  | International Trade Policy, Foreign Aid                               |
| 9  | March 14 | Institutions, State Capacity, and Conflict<br><i>Assignment 3 Due</i> |
| 10 | March 21 | Geography and History (*)   |

### Class Presentations

- |       |                |                                       |
|-------|----------------|---------------------------------------|
| 11-12 | Mar. 28- Apr 4 | Presentations ( <i>Assignment 4</i> ) |
|-------|----------------|---------------------------------------|

## READING MATERIAL

Most of the course material will consist of detailed lecture notes, which will be posted on Blackboard before the start of each class. There will also be some required readings (to be announced). Students should aim to complete the readings for each week before the start of lecture. Articles and book chapters listed in the Course Outline and Readings Section will be linked to the course website as necessary.

### General References (Recommended Books)

Banerjee, Abhijit V., and Esther Duflo. Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty. New York, NY: Public Affairs. 2011.

Ray, Debraj. Development Economics. Princeton, NJ: Princeton University Press. 1998.

The books are available at the Short-Term Loan Service at the Robarts Library (4th Floor) in a very limited number (one copy). Because these are not new books, you should be able to find used copies online (e.g., [www.chapters.indigo.ca](http://www.chapters.indigo.ca), [www.amazon.ca](http://www.amazon.ca)) at substantial discounts.

### Reference on Empirical Methods

Angrist, J., and J. S. Pischke. Mostly Harmless Econometrics. Princeton, NJ: Princeton University Press. 2008.

## READINGS:

### I: Social Welfare and Development

#### Week 1: Overview

\*Sala-i-Martin, Xavier (2006). "The World Distribution of Income: Falling Poverty and ... Convergence, Period." *Quarterly Journal of Economics*, 121(2), 351-397.

\*Sen, Amartya. "The Perspective of Freedom." Chapter 1 in Development as Freedom. Oxford: Oxford University Press. 1999.

#### Week 2: Social Welfare, Poverty, and Growth

\*Sala-i-Martin, Xavier (2006). "The World Distribution of Income: Falling Poverty and ... Convergence, Period." *Quarterly Journal of Economics*, 121(2), 351-397.

\*Deaton, Angus (1997). The Analysis of Household Surveys: A Microeconometric Approach to Development Policy, Section 3.1 ("Welfare, Poverty, and distribution"), pp. 133-161.

\*Besley, Timothy, and Robin Burgess (2003). "Halving Global Poverty", Journal of Economic Perspectives, 17(3), pp. 3-22.

Ray, Chapter 6 ("Economic Inequality") and Chapter 8.2.2 ("Poverty Measures"), pp. 169-193, 249-292 (esp. 253-256, 290-292)

Sen, Amartya. "Poverty as Capability Deprivation." Chapter 4 in Development as Freedom. Oxford: Oxford University Press. 1999.

Banerjee and Duflo, Chapter 2 ("A Billion Hungry People?"), pp. 19-40.

Ray, Chapter 3 ("Economic Growth"), pp. 47-90.

Easterly, Chapter 3 ("Solow's Surprise: Investment is Not the Key to Growth"), pp. 47-69.

## 2: Investments, Human Capital Accumulation

### **Week 3: Credit and Insurance**

- \*Banerjee, Abhijit V., and Esther Duflo (2010). "Giving Credit Where It Is Due." Journal of Economic Perspectives, 24(3), 61-80.
- \*de Mel, Suresh, David McKenzie, and Christopher Woodruff (2008). "Returns to Capital in Microenterprises: Evidence from a Field Experiment", Quarterly Journal of Economics, 123(4), 1329-72.
- \*Karlan, Dean, and Jonathan Zinman (2009). "Observing Unobservables: Identifying Information Assymetries with a Consumer Credit Field Experiment." Econometrica, 77(6), 1993-2008.
- \*Banerjee, Abhijit, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan (2015). "The Miracle of Microfinance? Evidence from a Randomized Evaluation." American Economic Journal: Applied Economics, 7(1), 22-53.
- Banerjee and Duflo. Chapter 6 ("Barefoot Hedge-Fund Managers") and Chapter 7 ("The Men from Kabul and the Eunuchs from India: The (Not So) Simple Economics of Lending to the Poor"), pp. 133-155, 157-181.
- Ray, Chapter 14.3 ("Theories of informal credit markets"), Chapter 14.5.2 ("Microfinance"), pp. 420-445, 543-561, 578-584.
- Banerjee, Abhijit, Dean Karlan, and Jonathan Zinman (2015). "Six Randomized Evaluations of Microcredit: Introduction and Further Steps." American Economic Journal: Applied Economics, 7(1), 1-21.

### **Weeks 4 - 5: Human Capital, Gender, Ethnicity/Race**

- \*Banerjee and Duflo, Chapter 4 ("Top of the Class"), pp. 71-101.
- \*Bobonis, Gustavo J., and Frederico Finan (2009). "Neighborhood Peer Effects in Secondary School Enrollment Decisions." Review of Economics and Statistics, 91(4), 695-716.
- \*Duflo, Esther (2005). "Gender Equality and Development", unpublished working paper, MIT.
- Munshi, Kaivan, and Mark Rosenzweig (2006). "Traditional Institutions Meet the Modern World: Caste, Gender, and Schooling Choice in a Globalizing Economy." American Economic Review 96(4), 1225-52.
- Easterly, Chapter 4 ("Education for What?"), pp.71-85.
- Banerjee and Duflo, Chapter 3 ("Low-Hanging Fruit for Better (Global) Health"), pp. 41-70.

## Section 3: Role of the State and Governance

### **Week 6: Democracy and Development (DD); Representation, Responsiveness and Accountability**

- \*Banerjee and Duflo, Chapter 10 ("Policies, Politics"), pp. 235-265
- \*Besley, Timothy. 2006. Chapter 3 ("Political Agency and Accountability") in Principled Agents? The Political Economy of Good Government. Oxford: Oxford University Press.
- \*Ferraz, Claudio, and Frederico Finan. (2008). "Exposing Corrupt Politicians: The Effect of Brazil's Publicly Released Audits on Electoral Outcomes." Quarterly Journal of Economics, 123(2), 703-745.

\*Fujiwara, Thomas (2014). "Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil." *Econometrica* (forthcoming).

Acemoglu, Daron, et al (2008). "Income and Democracy." *American Economic Review*, 98(3), 808-842.

Ray, Appendix 1 ("Elementary Game Theory"), pp. 757-775.

#### Section 4: International Macroeconomics and Structure

##### **Week 8: International Trade Policy; Foreign Aid**

\*Feenstra, Robert C., and Alan M. Taylor Smith, Chapter 4 ("Trade and Resources: The Heckscher-Ohlin Model") in *International Economics*. New York, NY: Worth Publishers.

\*Ray, Chapter 17 ("Trade Policy"), pp. 647-705.

\*Sachs, Jeffrey D. (2005). "The Development Challenge", *Foreign Affairs*, 84(2), 78-90.

Harrison, Ann (2006). "Globalization and Poverty." NBER Working Paper 12347.

Sanchez, Pedro, et al (Sachs, Jeffrey D.) (2007). "The African Millenium Villages." *PNAS*, 104(43), 16775-16780.

Clemens, Michael, and Gabriel Demombynes (2013). "The New Transparency in Development Economics: Lessons from the Millenium Villages Controversy." Center for Global Development Working Paper 342.

##### **Week 9: Institutions, State Capacity, and Conflict**

\*Besley, Timothy and Torsten Persson (2011). Chapter 1 of *Pillars of Prosperity: The Political Economics of Development*. Princeton University Press.

Blattman, Christopher, and Edward Miguel (2010). "Civil War." *Journal of Economic Literature*, 48(1), 3-57.

##### **Week 10: Geography and History**

\*Nunn, Nathan (2009). "The Importance of History for Economic Development." *Annual Review of Economics*, 1, 65-92.

\*Acemoglu, Daron, Simon Johnson, and James Robinson (2001). "The Colonial Origins of Comparative Development; An Empirical Investigation." *American Economic Review*, 91(5), 1369-1401.

\*Engerman, Stanley L. and Kenneth L. Sokoloff (2000). "Institutions, Factor Endowments, and Paths of Development in the New World", *Journal of Economic Perspectives*, 14(3), pp. 217-232.