## University College London

**Department of Economics**

## ECON0054: Economics of Development

**Lecturer:**

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## Overview

This course is designed for students interested in addressing important questions affecting nearly two-thirds of the world’s population living in poverty: why are some countries rich in comparison with the vast majority that are poor? What are the root causes and the proximate causes of economic underdevelopment? To what extent are education and health important for economic development? Is high population growth detrimental to economic prosperity? Why does gender inequality matter? Can the relaxation of credit and saving constraints help to alleviate poverty and empower women via micro-credit and micro-savings? Is foreign aid effective?

## Objective

While addressing these and other concerns in countries where a large number of poor households live, this course is intended not only to provide an overview of the leading issues and ongoing controversies on economic development trajectories and policy, but also to expose students to the latest research findings in salient poverty-related topics. This course is therefore not confined to textbook chapters, but also to recent journal articles linking theories and empirical evidence, and to address context-specific questions on what works and what doesn’t for poverty alleviation in randomized control trials.

## Typical Assessments

1. Lecture participation

All students are required to read the starred (\*) compulsory readings *before* each of the ten lectures in term 1.

1. Two within-term 1 examinations 60% of the final mark

One examination on the first Monday of reading week (worth 30%), and another one on the last Friday of Term 1 (worth 30%).1 The duration of each examination is usually 1 hour. The First Mid-Term Examination typically takes place in November and the Second Mid-Term Examination in December.

1. Tutorials and assignments

There are four compulsory tutorials. The second tutorial will review your first mid-term exam. The third tutorial is intended to consolidate acquired knowledge through reading and lecture material via a problem set which should help students to prepare their second mid-term in December.

The first and fourth tutorials are designed to help students move on towards completion of their final paper to be submitted in term three.

1. Final paper. 40% of the final mark

The final paper is usually in Term 3. This short paper (typically 15 pages max all inclusive) will be worth 40% of the students’ final mark. The paper should examine, either theoretically or empirically, or in an essay-like descriptive format an important question related to economic development. The student’s principal objective should be to undertake an investigation on his/her own that improves our understanding of the process of development, and policy implication (s) for poor households in developing countries. This paper should be an exposition of the student’s own research and findings on a topic of his/her choice – preferably on a topic from the list covered in lecture program below.

By the end of Term 1, students should have submitted their final paper project.

## Pre-requisites

Eagerness to understand *extensive* reading material is essential. Basic Micro and Macro, and Introduction to Math for Economist is important. Familiarity with Applied Econometrics and, in particular, with OLS, Diff-in-Diff, IV and RDD are useful tools for some of the material that will be covered.

1 One-term affiliate students’ performance is worth 45% each or 90% of their final mark.

## Reading material

Todaro, Michael P., and Stephen C. Smith. 2015. Economic Development, 12th Edition, Pearson Education. Henceforth: **TS**.

Weil, David N. 2013. Economic Growth, 3d Edition, New York: Addison Wesley. Henceforth:

**DW**.

Deaton, Angus. 2013. The Great Escape, Health, Wealth, and the Origins of Inequality, Princeton, NJ: Princeton University Press. Henceforth: **AD**.

Banerjee, Abhijit V, and Esther Duflo. 2011. Poor Economics: A Radical Thinking of the Way to Fight Global Poverty, Public Affairs. Henceforth: **BD**.

Easterly,William. 2001. The Elusive Quest for Growth, Economists’ Adventures and Misadventures in the Tropics, Cambridge, MA.: MIT Press. Henceforth **WE**.

TS and DW are textbooks which deliver conceptual and theoretical frameworks on selected topics. AD, BD, and WE are written for the general public. The three books contain quick reads and do a nice job tying economic theory and research and the real world, and examining how well economic theories fare when put into practice.

Selected chapters from these five books, in addition to selected journal articles constitute the core reading in this course. Students do not have to buy the selected book chapters or the journal articles. The former will be posted on Moodle, and the latter can be obtained via UCL e-library.

## Preparation

During the ten-week course, we will be reading and discussing journal articles. This requires an understanding of empirical methods such as Ordinary Least Squares (OLS), Instrumental Variables (IV), Difference-in-Differences (DiD) and Regression Discontinuity Designs (RDD). A useful reference for review is James H. Stock and Mark W. Watson’s Introduction to Econometrics or Jeffrey M. Wooldrige’s Introductory Econometrics: A Modern Approach.

## Software

One of the assignments, as well as the term paper (for most students), will require the use of statistical software. The preferred software for the class is Stata. This is a very user-friendly package, and is the software most commonly used in the economics profession. This software is available in campus computers or remotely.

## Lecture Program

Starred (\*) readings are compulsory. However, the set questions for the lecture participation might borrow from some of the readings listed below the compulsory readings for each topic, in which case, students will be told in advance.

* 1. **Introduction to Economic Development**

\*DW Chapters 1&2

\*WE Chapter 1

TS Chapter 2

Ghatak, Maitreesh. 2018. “Measures of Development – Concepts, Causality and Context”, in P. Ray, R. Sarkar, and A. Sen (eds.) *Economics, Management and Sustainability - Essays in Honour of Anup Sinha*, Singapore: Springer, 2018. [PDF] richfield.ac.za

Easterly, William.1999. “Life During Growth” Typescript, Washington DC, The World Bank. https://invenio.unidep.org/invenio/record/12016/files/easterly2110.pdf

Daga, Gaurav. 2014. Towards a New Development Paradigm: Critical Analysis of Gross National Happiness, Master Thesis, Cambridge, UK: University of Cambridge https://conferences.matheo.si/event/0/contribution/62/material/paper/0.pdf

Jones, Charles I, and Peter J Klenow (2018), “Growth and well-being: policy should not be based on GDP alone” https://microeconomicinsights.org/growth-well- policy-not-based-gdp-alone/

* 1. **Traditional Models of Economic Development**

\*TS Chapter 3 (except for the Solow Model)

\*DW Chapter 3

WE Chapter 3

* 1. **The Importance of Health**

\*AD Chapter 3

\*BD Chapter 3

DW – Chapter 6 WE – Chapter 4

Kremer Michael and Rachel Glennerster. 2011. “Improving Health in Developing Countries” in *Handbook of Health Economics* , volume 2 pp. 201-315, Amsterdam, The Netherlands: Elsevier.

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

Baird, Sarah, Joan Hamory Hicks, Michael Kremer, and Eduard Miguel. 2016. “Worms at Work: Long-Run Impacts of a Child Health Investment,” Quarterly Journal of Economics, 4(1): 1637-1680.

* 1. **The Importance of Education**

\*TS Chapter 8

\*WE Chapter 4

J-Pal Policy Bulletin. 2017. Roll Call: Getting Children Into School, Cambridge, MA: J- PAL MIT

Jensen, Robert. 2010. “The (perceived) Returns to Education and the Demand for Schooling”, The Quarterly Journal of Economics, May.

Kremer, Michael. 2006. “Randomized Evaluations of Educational Programs in Developing Countries: Some Lessons,” American Economic Review Papers and Proceedings, 93(2): 102-106.

* 1. **Population Growth**

\*DW Chapter 4

\*WE Chapter 5

Rogall, Thorsten and David Yanagizawa-Drott. 2013. “The Legacy of Political Mass Killings: Evidence from the Rwandan Genocide,” Harvard University, working paper.

https://epod.cid.harvard.edu/sites/default/files/2018- 02/the\_legacy\_of\_political\_mass\_killings-\_evidence\_from\_the\_rwandan\_genocide\_.pdf

**First Mid-Term Examination**

\*\*\*Reading Week\*\*\*

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* 1. **Gender**

\*Jayachandran, Seema. 2015. “The Roots of Gender Inequality in Developing Countries”, Annual Reviews (7), 63 -88. https://faculty.wcas.northwestern.edu/~sjv340/roots\_of\_gender\_inequality.pdf

\*Bursztyn, Leonardo, Alessandra Gonzalez, and David Yanagizawa-Drott. 2018. “Misperceived Social Norms: Female Labor Force Participation in Saudi Arabia,” Working paper, University of Chicago.

Field, Erika, Seema Jayachandran, Rohini Pande, and Natalia Rigol. 2016. “Friendship at Work: Can Peer Effects Catalyze Female Entrepreneurship? American Economic Journal: Economic Policy, 8(2): 125 – 153

Lowes, Sara. 2018. “Matrilineal Kinship and Spousal Cooperation,” Working paper, Bocconi University.

Duflo, Esther and Raghabendra Chattopadhyay. 2004. “Women as Policy Makers: Evidence from a Randomized Policy Experiment in India,” *Econometrica* 72 (5): 1409- 1443.

Alesina, Alberto, Paola Giuliano and Nathan Nunn. 2013. “On the Origins of Gender Roles: Women and the Plough,” *Quarterly Journal of Economics*, 128(2): 469-530.

* 1. **Microfinance**

\*Armendáriz, Beatriz, and Jonathan Morduch. 2010. The Economics of Microfinance, Cambridge, MA.: MIT Press, Chapter 4.

\*Ashraf, Nava, Dean Karlan, and Wesley Yin. 2006. “Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines”, Quarterly Journal of Economics, 635 -672. https://moodle.ucl.ac.uk/pluginfile.php/1178007/mod\_resource/content/2/Asharf\_et\_al\_ savings-1.pdf

Banerjee, Abhijit, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. 2015. “The Miracle of Microfinance? Evidence from a Randomized Evaluation”, American Economic Journal: Applied Economics, Vol. 7, No.1: 22-53.

BD Chapter 7

Armendáriz, Beatriz. 2011. “Women in Microsavings” in Beatriz Armendáriz and Marc Labie, eds. The Handbook of Microfinance, London-Singapore: Scientific Word Publishing.

Meager, Rachel. 2019. “Understanding the Average Impact of Microcredit”. https://microeconomicinsights.org/understanding-the-average-impact-of-microcredit/

* 1. **Geography**

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\*DW Chapter 15

\*Sachs, Jeffrey and Pia Malaney. 2002. “The Economic and Social Burden of Malaria,” *Nature*, 415 (6872): 680-685.

Sachs, Jeffrey. 2001. “The Geography of Poverty and Wealth,” *Scientific American*, 284 (3) March: 70-75.

Diamond, Jared. (2002). “Evolution, Consequences and Future of Plant and Animal Domestication,” *Nature*, 418 (8): 700-707

* 1. **Institutions**

\*BD Chapter 10

\*Acemolu, Daron, Simon Johnson, and James Robinson. 2001. “The Colonial Origins of Comparative Development: An Empirical Investigation”, The American Economic Review, Vol 91, No. 5: 1369-1401.

\*Dell, Melissa. 2010. “The Persistent Effects of Peru’s Mining Mita”, Econometrica, Vol. 78, No 6: 1863 – 1903.

Acemoglu, Daron, Simon Johnson, and James Robinson. 2002. “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution”, The Quarterly Journal of Economics, Vol. 117, No. 4: 1231 – 1294.

Nunn, Nathan. 2008. “The Long-Term Effects of Africa’s Slave Trades,” *Quarterly Journal of Economics*, 123(1): 139-176.

* 1. **Foreign Aid**

\*WE Chapter 6

\*Burnside, Craig, and David Dollar. 2000. “Aid, Policies, and Growth”, The American Economic Review, No. 19, No 4: 847 -868.

Nunn, Nathan and Nancy Qian. (2014). “U.S. Food Aid and Civil Conflict,” *American Economic Review*, 104 (6): 1630-1666.

Crost, Benjamin, Joseph Felter, and Patrick B. Johnston. (2014). “Aid Under Fire: Development Projects and Civil Conflict,” *American Economic Review*, 104 (6): 1833- 1856.

**Second Mid-Term Examination**

\*\*\*Christmas Break\*\*\*

## Final Paper is usually submitted in Term 3