

# Syllabus for EC 850

Professor Laura Schechter

Fall 2010

## 1 Administrative Details

Course meets: 12C Berkey Hall, TTh 2:40-4:00  
Office: 210E Marshall-Adams Hall  
E-mail: las@msu.edu  
Office Hours: M 4:00-5:00, F 10:00-11:00  
Website: <http://www.msu.edu/~las/EC850/EC850.html>

## 2 Course Description

We will begin by looking at issues in the measurement of poverty, inequality, and vulnerability. These concepts are, arguably, the basis of all development economics and so deserve proper attention.

After that we will move on to look at risk-coping mechanisms, both across people and across time. We will begin with risk sharing agreements across people, both with and then without commitment. After that we will look at savings and credit which are used to smooth risk across time.

We will continue on to social networks. We will study how networks are used to share risk, find jobs, and learn about new technologies. In terms of technology adoption, we will study both the more traditional literature on technology adoption and the newer literature which incorporates social networks.

Then there will be a detour related to impact analysis. This will come in handy in the final sections relating to education, health, institutions, and corruption.

## 3 Prerequisites

A graduate level microeconomic theory course and a graduate level econometrics course are prerequisites for this class. Taking this course without that may be difficult for you. If you are not a Ph.D. student enrolled in either Economics or Agricultural Economics you must obtain my consent to take the course for credit.

## 4 Course Requirements

The due dates for assignments and distribution of points for the semester are given below. Late assignments will not be accepted.

Homework assignment #1	12%	Sept 21
Research idea #1	2.5%	Sept 28
Homework assignment #2	12%	Oct 5
Research idea #2	2.5%	Oct 21
Homework assignment #3	12%	Oct 26
Research idea #3	2.5%	Nov 9
Homework assignment #4	12%	Nov 23
Research idea #4	2.5%	Dec 2
Referee report and presentation	12%	Assorted Dates
Final exam	30%	Dec 17, 10:00-12:00

### 4.1 Research Ideas

You will write a 1-2 page (maximum) statement on a research idea of your choice related to the themes that have been covered in class. It should include the following pieces: What is your specific question? What does theory say the answer should be? What data would you need to answer the question? What estimating equation would you use and what coefficients would you expect? What identification issues will you face and how would you deal with them? You don't need to choose your question based on data that already exists. You can write about what you would do if you had the ideal data set.

### 4.2 Referee Report and Presentation

Each of you will have to write a 3-5 page referee report and give a 30 minute presentation on a different paper. Each of the papers fits into a different section of the syllabus. Please e-mail me your first, second, and third choice papers by Sunday September 5. These are job market papers of students who were on the job market this past year. There are two documents posted on this course's website which explain how one should write a referee report (thanks to Alain de Janvry and Elisabeth Sadoulet). I will also send you real example(s) of referee reports by e-mail. A referee report should include approximately one paragraph of summary and then longer sections on larger concerns and more minor concerns.

The presentations should be approximately thirty minutes long and will be held on the last class day on which we are discussing the topic into which the paper fits. Around twenty minutes of the presentation should be spent explaining what the paper does. Five minutes should be spent discussing the main contributions and the main shortcomings of the paper. The last five minutes should be spent discussing questions which are left open for future researchers on related topics. (These numbers are all quite approximate. You may vary them as you feel comfortable.) After your presentation there will be another five minutes for discussion with everyone. You should hand in your referee report on the same day as

your presentation is scheduled. The papers from which you can choose, and the approximate dates that go along with them, are listed below:

- $\approx$  Sept 16 Yanagizawa, D. (2009), “Propaganda and Conflict: Theory and Evidence from the Rwandan Genocide.”
- $\approx$  Sept 23 Durante, R. (2009), “Risk, Cooperation and the Economic Origins of Social Trust.”
- $\approx$  Sept 30 Kinnan, C. (2009), “Distinguishing Barriers to Insurance in Thai Villages.”
- $\approx$  Oct 12 Feler, L. (2009), “What Happens to Local Economies When State-Owned Banks are Privatized? Evidence from Brazil.”
- $\approx$  Oct 19 Giné, X., M. Martínez-Bravo, and M. Vidal-Fernández (2009), “Intertemporal Substitution or Reference-Dependent Preferences? Evidence from Daily Labor Supply of South Indian Boat-Owners.”
- $\approx$  Oct 28 Pongou, R. (2009), “Anonymity and Infidelity: Ethnic Identity, Strategic Cross-Ethnic Sexual Network Formation, and HIV/AIDS in Africa.”
- $\approx$  Nov 2 Sautmann, A. (2009), “Partner Search and Demographics: The Marriage Squeeze in India.”
- $\approx$  Nov 16 Bursztyn, L. and L.C. Coffman (2009), “The Schooling Decision: Family Preferences, Intergenerational Conflict, and Moral Hazard in the Brazilian Favelas.”
- $\approx$  Nov 18 Badiani, R. (2009), “Factories and Farms: How does Economic Growth Impact Rural Incomes and Educational Investment.”
- $\approx$  Dec 7 Fenske, J. (2009), “Does Land Abundance Explain African Institutions?.”

### 4.3 Homework Assignments

There will be four homework assignments throughout the semester combining data analysis and theory. You will need to use Stata or some similar statistical package. The computers in the department’s computer lab have Stata, and if you do not have an account for those computers please let me know and I will help you get one. There is a handout available on the class website giving you some introductory information on how to get started in Stata. If you have more questions after looking at that please feel free to contact me.

### 4.4 Final Exam

There will be a final exam at the end of this class. I will post a sample exam closer to the end of the semester.

## 5 Course Outline and Readings

If you click on the title of any of the papers below it should take you directly to the paper. You may only be able to access these papers when you are logging on from a campus computer due to copyright issues. When I wrote this syllabus all of the links worked. Please let me know if any of them seem to be acting funny throughout the semester.

Although lectures may draw from any or all of these readings, you will only be required to do one reading for each class period. There is an **(R)** in front of the required readings. You are really required to do the readings. The readings are all quite excellent, and discussing them in class is *not* a substitute for reading them yourself!

### 5.1 Measuring Poverty, Inequality, and Vulnerability (Sept 2, 7, 9, and 14)

#### 5.1.1 Poverty

- Sen, A. (1976), [“Poverty: An Ordinal Approach to Measurement,”](#) *Econometrica* 44(2), 219-231.
- Foster, J. Greer, J. & Thorbecke, E. (1984), [“A Class of Decomposable Poverty Measures,”](#) *Econometrica* 52(3), 761-766.
- Hagenaars, A. (1987), [“A Class of Poverty Indices,”](#) *International Economic Review* 28(3), 583-607.
- **(R, up through page 66)** Ravallion, M. (1992), [“Poverty Comparisons: A Guide to Concepts and Methods,”](#) LSMS Working Paper No. 88, The World Bank.
- Ravallion, M. (1996), [“Issues in Measuring and Modelling Poverty,”](#) *Economic Journal* 106(438), 1328-43.

#### 5.1.2 Inequality

- Dalton, H. (1920), [“The Measurement of the Inequality of Incomes,”](#) *Economic Journal* 30(119), 348-361.
- **(R)** Atkinson, A. B. (1970), [“On the Measurement of Inequality,”](#) *Journal of Economic Theory* 2, 244-63.
- Shorrocks, A. F. (1980), [“The Class of Additively Decomposable Inequality Measures,”](#) *Econometrica* 48(3), 613-626.
- Shorrocks, A. F. (1982), [“Inequality Decomposition by Factor Components,”](#) *Econometrica* 50(1), 193-212.
- Elbers, C., Lanjouw, J. O. & Lanjouw, P. (2003), [“Micro-Level Estimation of Poverty and Inequality,”](#) *Econometrica* 71(1), 355-64.

### 5.1.3 Vulnerability

- Ligon, E. & Schechter, L. (2003), “[Measuring Vulnerability](#),” *Economic Journal* 113(486), 95-102.
- (R) Calvo, C. & Dercon, S. (2005), “[Measuring Individual Vulnerability](#),” Oxford University, WPS No. 229.

## 5.2 Risk Sharing and Informal Insurance (Sept 16, 21, 23, 28, and 30)

### 5.2.1 Overview

- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, [chapter 8](#).

### 5.2.2 Full Insurance

- (R) Townsend, R. (1994), “[Risk and Insurance in Village India](#),” *Econometrica* 62(3), 539-591.

### 5.2.3 Limited Commitment

- Fafchamps, M. (1992), “[Solidarity Networks in Pre-Industrial Societies: Rational Peasants with a Moral Economy](#),” *Economic Development and Cultural Change* 41(1), 147-174.
- (R) Coate, S. & Ravallion, M. (1993), “[Reciprocity Without Commitment: Characterization and Performance of Informal Insurance Arrangements](#),” *Journal of Development Economics* 40(1), 1-24.
- (R) Ligon, E., Thomas, J. P. & Worrall, T. (2002), “[Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies](#),” *Review of Economic Studies* 69(1), 209-244.
- Genicot, G. & Ray, D. (2003), “[Group Formation in Risk-Sharing Arrangements](#),” *Review of Economic Studies* 70(1), 87-113.

### 5.2.4 Assorted Empirical Results

- Rosenzweig, M. R. & Stark, O. (1989), “[Consumption Smoothing, Migration and Marriage: Evidence from Rural India](#),” *Journal of Political Economy* 97(4), 905-926.
- (R) Udry, C. (1994), “[Risk and Insurance in a Rural Credit Market: An Empirical Investigation in Northern Nigeria](#),” *Review of Economic Studies* 61(3), 495-526.

- Foster, A. D. & Rosenzweig, M. R. (2001), “Imperfect Commitment, Altruism and the Family: Evidence from Transfer Behaviour in Low-Income Rural Areas,” *Review of Economics and Statistics* 83(3), 389-407.
- Rosenzweig, M. R. & Munshi, K. (2009), “Why is Mobility in India so Low? Social Insurance, Inequality, and Growth,” Unpublished Working Paper.

### 5.2.5 Assorted Experimental Results

- Barr, A. & Genicot, G. (2008), “Risk Sharing, Commitment, and Information: An Experimental Analysis,” *Journal of the European Economic Association* 6(6), 1151-1185.
- (R) Robinson, J. (2008), “Limited Insurance Within the Household: Evidence from a Field Experiment in Western Kenya,” Unpublished Working Paper.

## 5.3 Savings (Oct 5, 7, and 12)

- Deaton, A. (1991). “Saving and Liquidity Constraints,” *Econometrica* 59(5), 1221-1248.
- (R) Paxson, C. (1992), “Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand,” *American Economic Review* 82(1), 15-33.
- Rosenzweig, M. & K. Wolpin (1993), “Credit Market Constraints, Consumption Smoothing, and the Accumulation of Durable Production Assets in Low-Income Countries: Investments in Bullocks in India,” *Journal of Political Economy* 101(2), 223-244.
- Udry, C. (1995), “Risk and Saving in Northern Nigeria,” *American Economic Review* 85(5), 1287-1300.
- (R) Ashraf, N., Karlan, D. & Yin, W. (2006), “Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines,” *Quarterly Journal of Economics* 121(2), 635-672.
- Dupas, P. & J. Robinson (2009), “Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya,” Unpublished Working Paper.
- Duflo, E., M. Kremer & J. Robinson (2009), “Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya,” Unpublished Working Paper.
- (R) Banerjee, A.V. & S. Mullainathan (2009), “The Shape of Temptation: Implications for the Economic Lives of the Poor,” Unpublished working paper.

## 5.4 Social Networks, Learning, and Technology Adoption (Oct19, 21, 22, 26, and 28, and Nov 2)

*Note: I will be out of town on Thursday Oct 14 and so class is rescheduled for Friday October 22 at a yet-to-be determined time and place. Sorry for the inconvenience.*

### 5.4.1 Risk Sharing in Social Networks

- (R) Fafchamps, M. & Lund, S. (2003), “[Risk-Sharing Networks in Rural Philippines](#),” *Journal of Development Economics* 71(2), 261-287.
- Dercon, S. & DeWeerd, J. (2006), “[Risk-Sharing Networks and Insurance Against Illness](#),” *Journal of Development Economics* 81(2), 337-356.
- (R) Bloch, F., Genicot, G. & Ray, D. (2008), “[Informal Insurance in Social Networks](#),” *Journal of Economic Theory* 143(1), 36-58.
- (R) Karlan, D., Möbius, M. Rosenblat, T. & Szeild, A. (2009), “[Trust and Social Collateral](#),” *Quarterly Journal of Economics* 124(3), 1307-1361.

### 5.4.2 Job Search and Labor Markets in Social Networks

- Greif, A. (1993), “[Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Trader’s Coalition](#),” *American Economic Review* 83(3), 525-548.
- Munshi, K. (2003), “[Networks in the Modern Economy: Mexican Migrants in the U. S. Labor Market](#),” *Quarterly Journal of Economics* 118(2), 549-599.
- (R) Krishnan, P. & Sciubba, E. (2009), “[Links and Architecture in Village Networks](#),” *Economic Journal* 119(537), 917-949.

### 5.4.3 Technology Adoption and Learning

- Ellison, G. & Fudenberg, D. (1993), “[Rules of Thumb for Social Learning](#),” *Journal of Political Economy* 101(4), 612-643.
- Besley, T. & Case, A. (1994), “[Diffusion as a Learning Process: Evidence from HYV Cotton](#),” RPDS Working Paper No. 174.
- (R) Foster, A. & Rosenzweig, M. R. (1995), “[Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture](#),” *Journal of Political Economy* 103(6), 1176-1209.
- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, [chapter 12](#).

- Munshi, K. (2004), “Social Learning in a Heterogeneous Population: Technology Diffusion in the Indian Green Revolution,” *Journal of Development Economics* 73(1), 185-213.

#### 5.4.4 Technology Adoption With Network Data

- Bandiera, O. & Rasul, I. (2006), “Social Networks and Technology Adoption in Northern Mozambique,” *Economic Journal* 116(514), 869-902.
- Miguel, E. & Kremer, M. (2007), “The Illusion of Sustainability,” *Quarterly Journal of Economics* 122(3): 1007-1065.
- (R) Conley, T. & Udry, C. (2010), “Learning About a New Technology: Pineapple in Ghana,” *American Economic Review* 100(1): 35-69..

### 5.5 Impact Analysis (Nov 4 and 9)

- Rosenzweig, M. R. & Wolpin, K. I. (2000) “Natural ‘Natural Experiments’ in Economics,” *Journal of Economic Literature* 38(4), 827-874.
- (R) Ravallion, M. (2001), “The Mystery of the Vanishing Benefits: An Introduction to Impact Evaluation,” *World Bank Economic Review* 15(1), 115-140.
- (R) Duflo, E. (2002), *Lecture Notes on Empirical Methods*.
- Duflo, E. Glennerster, R. & Kremer, M. (2007), “Using Randomization in Development Economics Research: A Toolkit,” In Schultz, T.P. & J.A. Strauss, eds., *Handbook of Development Economics*, Volume 4. Amsterdam: North Holland, chapter 61.

### 5.6 Education and Health (Nov 11, 16, 18, and 23)

#### 5.6.1 The Returns to Schooling

- Foster, A. D. & Rosenzweig, M. R. (1996), “Technical Change and Human-Capital Returns and Investments: Evidence from the Green Revolution,” *American Economic Review* 86(4), 931-953.
- Behrman, J. R., Foster, A. D., Rosenzweig, M. R. & Vashishtha, P. (1999), “Women’s Schooling, Home Teaching, and Economic Growth,” *Journal of Political Economy* 107(4), 682-714.
- (R) Duflo, E. (2001), “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment,” *American Economic Review* 91(4), 795-813.



- (R) Krueger, A.B. & Lindhal, M. (2001), “Education for Growth: Why and For Whom?,” *Journal of Economic Literature* 39(4), 1101-1136.
- Heckman, J. J., Lochner, L. J. & Todd, P. E. (2006) “Earnings Equations and Rates of Return: The Mincer Equation and Beyond,” in E. Hanushek and F. Welch, ed., *Handbook of the Economics of Education*, North Holland, chapter 7.

### 5.6.2 Non-Random Evaluation of Education

- Case, A. & Deaton, A. (1999), “School Inputs and Educational Outcomes in South Africa,” *Quarterly Journal of Economics* 114(3), 1047-84.
- (R) Angrist, J. & Lavy, V. (1999), “Using Maimonides’ Rule to Estimate the Effect of Class Size on Scholastic Achievement,” *Quarterly Journal of Economics* 114(2), 533-575.
- Kremer, M. Chaudhury, N., Rogers, F. H., Muralidharan, K. & Hammer, J. (2005), “Teacher Absence in India: A Snapshot,” *Journal of the European Economic Association* 3(2), 658-667.

### 5.6.3 Random Evaluation Related to Education

- Kremer, M. & Miguel, E. (2004), “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,” *Econometrica* 72(1), 159-217.
- Glewwe, P. & Kremer, M. (2006), “Schools, Teachers, and Education Outcomes in Developing Countries,” in E. Hanushek and F. Welch, ed., *Handbook of the Economics of Education*, North Holland, chapter 16.
- Banerjee, A., Cole, S., Duflo, E. & Linden, L. (2007), “Remedying Education: Evidence from Two Randomized Experiments in India,” *Quarterly Journal of Economics* 122(3), 1235-1264.
- Kremer, M., Miguel, E. & Thornton, R. (2009), “Incentives to Learn,” *Review of Economics and Statistics* 91(3), 437-456.

### 5.6.4 Health

- Strauss, J. & D. Thomas (1995), “Human Resources: Empirical Modeling of Household and Family Decisions,” In Behrman, J. & T.N. Srinivasan, eds., *Handbook of Development Economics*, Volume 3. Amsterdam: North Holland, chapter 34.
- (R) Subramanian, S. & A. Deaton (1996), “The Demand for Food and Calories,” *Journal of Political Economy* 104(1), 133-62.
- Miguel, T. & M. Kremer (2004), “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,” *Econometrica* 72(1), 159-217.

- Jensen, R.T. & N.H. Miller (2010), “Do Consumer Price Subsidies Really Improve Nutrition?,” *Review of Economics and Statistics*, forthcoming.

## 5.7 Institutions (Nov30 and Dec 2)

### 5.7.1 Cross-Country Results

- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, [chapter 17](#).
- (R) Acemoglu, D., Johnson, S. & Robinson, J. (2001), “The Colonial Origins of Comparative Development: An Empirical Investigation,” *American Economic Review* 91(5), 1369-1401.
- Glaeser, E., La Porta, R., Lopez-de-Silanes, F. & Shleifer, A. (2004), “Do Institutions Cause Growth?,” *Journal of Economic Growth* 9(3), 271-303.

### 5.7.2 Results within a Country

- Besley, T. (1995), “Property Rights and Investment Incentives: Theory and Evidence from Ghana,” *Journal of Political Economy* 103(5), 903-937.
- Besley, T. & Burgess, R. (2000), “Land Reform, Poverty Reduction, and Growth: Evidence from India,” *Quarterly Journal of Economics* 115(2), 389-430.
- Banerjee, A. & Iyer, L. (2005), “History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India,” *American Economic Review* 95(4), 1190-1213.
- Pande, R. & Udry, C. (2005), “Institutions and Development: A View from Below,” in the Proceedings of the 9th World Congress of the Econometric Society, edited by R. Blundell, W. Newey, and T. Persson, Cambridge University Press.
- (R) Field, E. (2007), “Entitled to Work: Urban Property Rights and Labor Supply in Peru,” *Quarterly Journal of Economics* 122(4), 1561-1602.

## 5.8 Corruption (Dec 7 and 9)

### 5.8.1 Theory

- Banerjee, A. (1997), “A Theory of Misgovernance,” *Quarterly Journal of Economics* 112(4), 1289-1332.
- Bardhan, P. (1997), “Corruption and Development: A Review of Issues,” *Journal of Economic Literature* 35, 1320-1346.

### 5.8.2 Corruption and Firms

- Fisman, R. (2001), “Estimating the Value of Political Connections,” *American Economic Review* 91(4), 1095-1102.
- Svensson, J. (2003), “Who Must Pay Bribes and How Much? Evidence from a Cross-Section of Firms,” *Quarterly Journal of Economics* 118(1), 207-230.
- Khwaja, A. I. & Mian, A. (2005), “Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market,” *Quarterly Journal of Economics* 120(4), 1371-1411.

### 5.8.3 Other Corruption Experiments

- Reinikka, R. & Svensson, J. (2004), “Local Capture: Evidence from a Central Government Transfer Program in Uganda,” *Quarterly Journal of Economics* 119(2), 679-705.
- (R) Olken, B. A. (2007), “Monitoring Corruption: Evidence from a Field Experiment in Indonesia,” *Journal of Political Economy* 115(2), 200-249.
- Bertrand, M., Djankov, S., Hanna, R., & Mullainathan, S. (2007), “Obtaining a Driver’s License in India: An Experimental Approach to Studying Corruption,” *Quarterly Journal of Economics* 122(4), 1639-1676.
- (R) Ferraz, C. & Finan, F. (2008), “Exposing Corrupt Politicians: The Effect of Brazil’s Publicly Released Audits on Electoral Outcomes,” *Quarterly Journal of Economics* 123(2), 703-745.