

Syllabus for Econ/AAE 474

Economic Problems of Developing Areas

Professor Laura Schechter

Spring 2025

1 Administrative Details

Course meets:	MW 2:30-3:45	224 Ingraham Hall
E-mail:	lschechter@wisc.edu	
Office Hours:	T 11:00-12:00 and F 2:30-3:30	6462 Social Sciences
	Both times also virtual	Zoom Room
Website:	Canvas	

2 Course Description and Learning Goals

In 2022, one out of ten people in the developing world was living on less than \$2.15 per day, and one out of four people was living on less than \$3.65 per day. Health status, educational attainment, and government quality are substantially lower in developing countries than in developed countries. Why are so many people in developing countries so poor and what constrains them from catching up? What strategies can be effective in moving people out of poverty? The intention of this course is to explore the causes and correlates of global poverty, and discuss policies used to address it.

We will begin the class by defining development, poverty, and inequality and looking at some general trends in these measures. We will then look at human capital within which we will cover health, nutrition, education, and social capital. After the midterm we will cover population, fertility, and child labor. We will continue on to look at finance including informal insurance, traditional credit, microcredit, roscas, and savings. From there we will move on to look at big-picture issues such as institutions, governance, and corruption.

Many of the papers we will read in this course will be empirical and one of the goals of this class will be to learn how to read, understand, and criticize empirical work. You do not need to have taken an econometrics course since we will cover the necessary tools in class.

The approach of the course is microeconomic, meaning that we focus on individual and household behaviors, as well as market failures which lead to sub-optimal choices by these individuals. This course will not cover macroeconomic topics such as growth, trade, or globalization. This is not because these are not important topics, but rather because there

are other courses at UW which are entirely dedicated to them. For students interested in those topics I recommend AAE 373 and 374, and Econ 364, 365, 464, and 475. There are also area studies classes focusing on Latin America (Econ/AAE 462), Africa (Econ/AAE 477), and East and Southeast Asia (Econ/AAE 473).

After successfully completing this course, students will:

1. Understand where and how the poor live.
2. Recognize how decision-making by the poor in developing countries is affected by their situation.
3. Know which programs have been effective in helping alleviate poverty.
4. Be aware of how economists think about poverty, and how they test theories about it.
5. Comprehend when we feel comfortable saying that a particular event has caused another to occur.

3 Policy on the Use of Mobile Technologies

Please keep your cell phones on silent and put away in your bag or pocket. Laptop/tablet use in lectures is not recommended. Even when devices like laptops are diligently used for typed note-taking, studies show they invite rote transcribing versus mental processing or thinking. This leads to poorer academic performance. Consider hand-writing your notes in class for potentially more efficient, deeper, real-time learning. Using your laptop or tablet to take notes also often leads to checking email and social media or browsing the internet. This hinders your learning and has also been shown to distract those around you.

Therefore, I highly recommend taking notes on paper. (Slides are available prior to class, and can be printed.) For more information about why not to use laptops during class, see this NY Times article: [Laptops Are Great. But Not During a Lecture or a Meeting.](#)

4 Prerequisites

One introductory course in economics (Econ 101, Econ 111, or AAE 101). We will frequently discuss econometric results, but you do not have to have taken econometrics to be successful in this course.

5 Credit Hours

This 3 CR course has two 75 min lectures per week. Students are expected to work approximately 6 hours per week outside of class to complete assignments and learn the relevant material.

6 Materials

The main textbook for this class is Poor Economics by Abhijit Banerjee and Esther Duflo. There is a paperback version published by Public Affairs Press in 2012 which costs between \$11 and \$19 depending on the source if you would like to purchase a hard copy. You can also borrow it from the UW library, or you can read an electronic copy if you log in with your NetID here: <https://ebookcentral.proquest.com/lib/wisc/detail.action?docID=876489>. Chapters in this book are denoted **BD** on the reading list. Extra credit bonus for reading the syllabus, send me an email by Monday January 27 with the name of and a link to your current favorite song. All other reading materials will be posted on Canvas. Study questions and lecture slides will be posted on the course website before each class period.

7 Course Requirements

The distribution of points for the semester will be as follows:

- Four problem sets, 36% of total grade.
- Thirteen online responses, 13% of total grade.
- Two midterm exams, 51% of total grade.

Final grades are assigned in the following manner: the top four scores from the class are averaged. This average is subtracted from 100, and the remainder added to everyone's score. (Naturally, this means that 2 or 3 people receive "more than" 100%). Final grades are then assigned using the following scale:

$\geq 93\%$	A
$< 93\% \ \& \ \geq 87 \%$	AB
$< 87\% \ \& \ \geq 82 \%$	B
$< 82\% \ \& \ \geq 76 \%$	BC
$< 76\% \ \& \ \geq 65 \%$	C
$< 65\% \ \& \ \geq 60 \%$	D
$< 60\%$	F

7.1 Problem Sets

Homework assignments will include a variety of written and numerical exercises. Some assignments may involve the use of Excel. Excel guidance and tips will be provided, and I can also assist in office hours. Assignments will be posted on Canvas at least a week before they are due. The homework assignments will be due **Feb 10, Feb 24, Apr 2, and Apr 16**.

Late homework assignments will be accepted but will lose 17% credit for each 24 hours they are late. This means they lose 17% the first 24 hours late, 34% if two days late, 51% if three days late, 68% if four days late, 85% if five days late, and will receive no credit if

handed in six or more days late. Homeworks count as late if they are not received by 11:59 PM on the day they are due.

You will submit your problem sets on Canvas. Anything that you submit should contain grammatically correct, complete sentences (this is also true for email). You are expected to type the answers to your problem sets. When applicable, the problem set will state that you can hand-write things like equations or graphs.

You may work together but your answers must be your own. If two students' answers are exactly the same then both students will get half credit.

7.2 Online Responses

For each week of class there will be a question or questions posted in Canvas for you to respond to. They may be multiple choice or short answer or some other format. They will usually be related to the readings. They will be due by 11:59 PM on the Sunday after that week of class. There are 13 such assignments due **Jan 26, Feb 2, Feb 9, Feb 16, Feb 23, Mar 2, Mar 9, Mar 16, Mar 23, Apr 6, Apr 13, Apr 20, and Apr 27.**

7.3 Exams

The following dates have been set for the two mid-term exams:

- Mid-term 1: In class on **Monday, Mar 10th** from 2:30-3:45.
- Mid-term 2: In class on **Wednesday, April 30th** from 2:30-3:45.

The exams are not cumulative. There are no scheduled make-up exams. If you cannot take the exams at the scheduled times, do not take this course.

8 Course Outline and Readings

I expect you to have done the reading before class on the bold date in brackets to the left of the reading. There is usually one reading per day of class unless the reading is very short or very interesting.

Readings are either in the Banerjee and Duflo book (marked BD) or posted as pdfs on Canvas. You can access the electronic copy of the book on campus or with your net ID and password here: <https://ebookcentral.proquest.com/lib/wisc/detail.action?docID=876489>

1. Poverty, Inequality, and Other Development Measures (plus a detour on regressions) (Jan 22, 27, and 29, and Feb 3, 5, and 10).
 - (a) Introduction
 - [**Class 1, Jan 22**] BD Chapter 1: “Think Again, Again” (first half only, through page 9, stop at section heading “Trapped in Poverty”).

- [Class 1, Jan 22] Banerjee, A. V. & E. Duflo (2007), “The Economic Lives of the Poor,” *Journal of Economic Perspectives* 21(1), 141–167.
- (b) Human Development Index
- [Class 2, Jan 27] *Human Development Report* (2007/2008), “Technical Note 1,” 355–356.
 - [Class 2, Jan 27] *Human Development Report* (2010), “Technical Note 1,” 216–217.
 - [Class 2, Jan 27] Blog debate on the Human Development Index.
- (c) Poverty
- [Class 3, Jan 29] Banerjee et al (eds.): Chapter 1, Deaton, A. “Measuring Poverty.”
 - [Class 3, Jan 29] Haughton and Khander (2009) “Measuring Poverty”, *Handbook on Poverty and Inequality*, pages 67–73, The World Bank Institute.
- (d) Inequality
- [Class 4, Feb 3] RAY: Chapter 6, “Economic Inequality.”
 - [Class 5, Feb 5] *World Development Report* (2006), “Equity and Development, Overview,” 1–18.
- (e) Regressions (and Movie)
- [Class 6, Feb 10] Sykes, A.O. (1992) “An Introduction to Regression Analysis,” *The Inaugural Coase Lecture*.
 - [Class 6, Feb 10] iNDIEFLIX (2013) *Living on One Dollar* (56 minute documentary).

PROBLEM SET 1 DUE FEB 10

2. Human and Social Capital: Health, Education, and Norms (Feb 12, 17, 19, 24, and 26, and Mar 3 and 5).
- (a) Health
- [Class 7, Feb 12] BD Chapter 1.2: “Trapped in Poverty”
 - [Class 7, Feb 12] BD Chapter 2: “A Billion Hungry People?”
 - [Class 7, Feb 12] RAY: Section 8.4.2 (272–279) and 13.4.1 (489–499).
 - [Class 8, Feb 17] BD Chapter 3: “Low-Hanging Fruit for Better (Global) Health?”
- (b) Psychology
- [Class 9, Feb 19] Mani, A., S. Mullainathan, E. Shafir, & J. Zhao (2013), “Poverty Impedes Cognitive Function,” *Science* 341(6149), 976-980.
- (c) Education

- [Class 10, Feb 24] 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.

PROBLEM SET 2 DUE FEB 24.

- [Class 11, Feb 26] BD Chapter 4: “Top of the Class”

(d) Conditional Cash Transfers

- [Class 12, Mar 3] Rawlings, L. B. & G. M. Rubio (2005), “Evaluating the Impact of Conditional Cash Transfer Programs,” *World Bank Research Observer* 20(1), 29-55.

(e) Norms, Preferences, and Social Capital

- [Class 13, Mar 5] Karlan, D. (2007), “Social Connections and Group Banking,” *Economic Journal* 117(517), F52–F84.

MIDTERM 1, IN CLASS (Class 14, Mar 10).

3. Population: Fertility and Child Labor (Mar 12, 17, and 19).

(a) Population

- [Class 15, Mar 12] RAY: Chapter 9.
- [Class 16, Mar 17] BD Chapter 5: “Pak Sudarno’s Big Family”

(b) Child Labor

- [Class 17, Mar 19] Edmonds, E. & N. Pavcnik (2005), “Child Labor in the Global Economy,” *Journal of Economic Perspectives*, 19(1), 199–220.

4. Finance: Insurance, Credit, and Savings (March 31, and Apr 2, 7, 9, 14, and 16).

(a) Informal Insurance

- [Class 18, Mar 31] BD Chapter 6: “Barefoot Hedge-Fund Managers”

(b) Credit and Microcredit

- [Class 19, Apr 2] BD Chapter 7: “The Men from Kabul...”
PROBLEM SET 3 DUE APR 2.
- [Class 20, Apr 7] Morduch, J. (1999), “The Microfinance Promise,” *Journal of Economic Literature* 37(4), 1569–1614.
- [Class 21, Apr 9] Banerjee, A. D. Karlan, & J. Zinman (2015), “Six Randomized Evaluations of Microcredit: Introduction and Further Steps,” *American Economic Journal: Applied Economics* 7(1), 1–21.
- [Class 21, Apr 9] BD Chapter 9: “Reluctant Entrepreneurs”

(c) ROSCAs

- [Class 22, Apr 14] Anderson, S. & J. M. Baland (2002), The Economics of ROSCAs and Intrahousehold Resource Allocation, *Quarterly Journal of Economics* 117(3), 963–995.

(d) Savings

- [Class 23, Apr 16] BD Chapter 8: “Saving Brick by Brick”

PROBLEM SET 4 DUE APR 16.

5. Big Picture Issues: Institutions, Governance, and Corruption (April 21, 23, and 28).

(a) Institutions

- [Class 24, April 21] Banerjee et al (eds.): Chapter 2, Acemoglu, D., S. Johnson, & J. Robinson, “Understanding Prosperity and Poverty: Geography, Institutions, and the Reversal of Fortune.”
- [Class 24, April 21] BD Chapter 10: “Policies, Politics”

(b) Governance

- [Class 25, April 23] Finan, F. and L. Schechter (2012), “Vote-Buying and Reciprocity,” *Econometrica* 80(2), 863–881.

(c) Corruption (and Conclusion)

- [Class 26, April 28] Olken, B.A. and R. Pande (2012), “Corruption in Developing Countries,” *Annual Review of Economics* 4, 479–509.
- [Class 26, April 28] BD: “In Place of a Sweeping Conclusion”

MIDTERM 2, IN CLASS (Class 27, April 30).

9 Extra Information

9.1 Misconduct Statement

Academic integrity is critical to maintaining fair and knowledge-based learning at UW Madison. Academic dishonesty is a serious violation: it undermines the bonds of trust and honesty between members of our academic community, degrades the value of your degree and defrauds those who may eventually depend upon your knowledge and integrity.

Examples of academic misconduct include, but are not limited to: cheating on an examination (copying from another student’s paper, referring to materials on the exam other than those explicitly permitted, continuing to work on an exam after the time has expired, turning in an exam for regrading after making changes to the exam), copying the homework of someone else, submitting for credit work done by someone else, stealing examinations or course materials, tampering with the grade records or with another student’s work, or knowingly and intentionally assisting another student in any of the above. Students are reminded

that online sources, including anonymous or unattributed ones like Wikipedia, still need to be cited like any other source; and copying from any source without attribution is considered plagiarism.

The Department of Economics will deal with these offenses harshly following UWS14 procedures:

1. The penalty for misconduct in most cases will be removal from the course and a failing grade.
2. The department will inform the Dean of Students as required and additional sanctions may be applied.
3. The department will keep an internal record of misconduct incidents. This information will be made available to teaching faculty writing recommendation letters and to admission offices of the School of Business and Engineering.

If you think you see incidents of misconduct, you should tell your instructor about them, in which case they will take appropriate action and protect your identity. You can also choose to contact our department administrator, Tammy Herbst-Koel (therbst@wisc.edu), and your identity will be kept confidential.

For more information, refer to <https://conduct.students.wisc.edu/academic-misconduct/>

9.2 Grievance Procedure

If a student feels unfairly treated or aggrieved by faculty, staff, or another student, the University offers several avenues to resolve the grievance. The student is encouraged to speak first with the person toward whom the grievance is directed to see if a situation can be resolved at this level if they feel safe and comfortable doing so. Students are welcome to seek advice from the Academic Advising Assistant Director or others with whom they have a trusting relationship. The detailed grievance procedures of the economics department can be found here: <https://econ.wisc.edu/undergraduate/grievances/>

9.3 Accommodations for Students with Disabilities

The University of Wisconsin-Madison supports the right of all enrolled students to a full and equal educational opportunity. Students are expected to inform me of their need for instructional accommodations by the end of the third week of the semester, or as soon as possible after a disability has been incurred or recognized. I will work either directly with you or in coordination with the McBurney Disability Resource Center to identify and provide reasonable instructional accommodations. Disability information, including instructional accommodations as part of a student's educational record, is confidential and protected under FERPA.