

Yokohama National University

Economic Development

Clinton Watkins

1. Course Description and Aims

This course covers the microfoundations of development, examining theoretical and empirical issues applicable in less-developed country economies. Topics surveyed will include current issues, agriculture and rural development, education, human capital investment, employment and labour markets, population, poverty alleviation, health, credit and financial markets, dealing with risk, technological change and the design and evaluation of development projects. A number of empirical and case studies will be discussed in class, with students being expected to develop a comprehensive understanding of the development concepts and their application, and a familiarity with basic econometric approaches. The intended learning objectives of this unit are to develop an awareness of the central theoretical microeconomic issues in economic development; become familiar with empirical analysis and methods applicable to less developed countries; and be able to apply theoretical ideas from microeconomics to a range of key issues in developing country economies and development projects.

2. Method of Assessment

Two page summary and analysis of each discussion paper (total 20%); one final examination (80%)

3. Required Text and References

The course will not follow a text book chapter by chapter. A list of papers will be distributed in the first class, and handouts will be made available. The following texts are useful background references but need not be purchased for the course:

Bardhan, P. and C. Udry, Development Microeconomics, 1999, Oxford University Press.

Basu, K., Analytical Development Economics, 1997, MIT Press.

Deaton, A., The Analysis of Household Survey: A Microeconometrics Approach to Development Policy, 1998, Johns Hopkins University Press.

Ray, D., Development Economics, 1998, Princeton.

4. Related Subjects

Students taking this course are expected to have a solid foundation in micro and macroeconomics, and basic econometrics.

5. Course Outline

(Subject to change; addition or subtraction)

Topic 1: Introduction: Development, Indicators and Data

A. Introduction

Text: Ray, Chapter 2

Discussion Paper: 1) Sen, A.K., The concept of development, Handbook of Development Economics, vol. 1, 1988, Chapter 1.
2) Udry, C., Fieldwork, economic theory, and research on institutions in developing countries, AER Contributions of Recent Innovations in Data Collection, May 2003.

B. Dual Economy

Text: Basu, Chapter 7; Bardhan and Udry, Chapters 15

Topic 2: The Neoclassical Agricultural Household Model

A. The Standard Model

Text: Bardhan and Udry, Chapters 1 & 2

Discussion Papers: 1) Deaton, A. and C. Paxson (1998). "Economies of Scale, Household Size, and the Demand for Food", *Journal of Political Economy*, 106/5: 897-930.
2) Foster, A. and M. Rosenzweig (2002) "Household Division and Rural Economic Growth", *Review of Economic Studies*, 69(4): 839-869.

B. Models of Distribution within the Household

Discussion Paper: 1) Pitt, M., M. Rosenzweig and MD. Nazmul Hassan (1990) "Productivity, Health and Inequality in the Intrahousehold Distribution of Food in Low-Income Countries", *American Economic Review* 80: 1139-56.

C. Household Production and Economic Theories of Fertility and Investment in Children

Discussion Papers: 1) Becker, Gary and H. G. Lewis. 1973. "On the Interaction between the Quantity and Quality of Children" *Journal of Political Economy*, 81 (2) Part 2 Mar-Apr, S279-S288
2) Rosenzweig, M. and K. Wolpin (1980) "Testing the Quantity-Quality Fertility Model: the use of Twins as a Natural Experiment", *Econometrica*, January 48(1) 227-40.

D. Is the Household the appropriate unit of analysis?

- Discussion Papers:
- 1) Udry, C. (1996) "Gender, Agricultural Productivity and the Theory of the Household", *Journal of Political Economy* 104: 1010-1046.
 - 2) Browning, M. and PA. Chiappori (1998) "Efficient Intra-Household Allocations: A General Characterization and Empirical Tests", *Econometrica* 66(6): 1241-1278.
 - 3) Dercon, S. and P. Krishnan (2000). "In Sickness and in Health: Risk Sharing within Households in Ethiopia", *Journal of Political Economy* 108(4): 688-727.
 - 4) Case, A. and A. Deaton (1998) "Large Cash Transfers to the Elderly in South Africa", *Economic Journal* 108:1330-1361.
 - 5) Duflo, Esther. 2000 "Grandmothers and Granddaughters: Old age Pension and Intra-household allocation in South Africa" <http://econ-www.mit.edu/faculty/eduflo/files/papers/safpap9.pdf>
 - 6) Behrman, J. 1988. Intrahousehold allocation of nutrients in rural India: are boys favored? Do parents exhibit inequality aversion? *Oxford Economic Papers*. March 40.1: 32-54

E. Seasonality

- Discussion Paper: 1) Paxson, Christina. 1993. "Consumption and Income Seasonality in Thailand". *Journal of Political Economy*.

Topic 3: Saving, Credit, Risk and Insurance

Text: Bardhan and Udry, Chapters 7 & 8; Basu Chapter 13.

A. Risk, Saving, and Credit Constraints

Text: Ray Chapter 14

- Discussion Papers:
- 1) Paxson, C. (1992) "Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand", *American Economic Review* 82: 15-33.
 - 2) Rosenzweig, M. and 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: 223-244.
 - 3) Rosenzweig, M. and K. Wolpin (2000) "Natural 'Natural Experiments' in Economics", *Journal of Economic Literature* 38(4): 827-874, Section 4 (p 853-862).
 - 4) Besley, Coate and Loury (1993), "The economics of rotating savings and credit associations", *American Economic Review*, 83, 792-810.
 - 5) Besley and Coate (1995) "Group lending, repayment incentives and social collateral," *Journal of Development Economics*, 46, 1-18.
 - 6) Duong and Izumida (2002) "Rural development finance in Vietnam: a microeconomic analysis of household surveys," *World Development*, 30, 319-335.

B. Insurance

Text: Ray (1998) Chapter 15

- Discussion Papers:
- 1) Deaton, A. and C. Paxson (1994) "Intertemporal Choice and Inequality", *Journal of Political Economy*, 102: 437-67.
 - 2) Townsend, R. (1994) "Risk and Insurance in Village India", *Econometrica* 62: 539-592.
 - 3) Ravallion, M. and S. Chaudhuri (1997) "Risk and Insurance in Village India: Comment", *Econometrica* 65(1): 171-84.
 - 4) 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.
 - 5) Ligon, E. (1998) "Risk-sharing and Information in Village Economies", *Review of Economic Studies*.

C. Adjustment during a Crisis

- Discussion Paper:
- 1) Frankenberg, E., D. Thomas and K. Beegle (1999). "The Real Costs of Indonesia's Economic Crisis: Preliminary Findings from the Indonesia Family Life Surveys", RAND Labor and Population Program Working Paper Series 99-04 (Executive Summary only)

D. Fragmented Credit Markets

- Discussion Papers:
- 1) Banerjee, A. and A. Newman (1993) "Occupational Choice and the Process of Development", *Journal of Political Economy* 101: 274-298.
 - 2) Besley, T. and A. Levenson (1996) "The role of informal finance in household capital accumulation: Evidence from Taiwan", *Economic Journal* 106: 39-59
 - 3) World Development Report 2002, Overview "Building Institutions for Markets", http://econ.worldbank.org/files/2395_Overview-en.pdf
 - 4) McMillan, J. and C. Woodruff (1999) "Interfirm Relationships and Informal Credit in Vietnam", *Quarterly Journal of Economics*, 114: 1285-1320.
 - 5) Morduch, J. (1999) "The Microfinance Promise", *Journal of Economic Literature* 37(4): 1569-1614.
 - 6) Levine (1997) "Financial development and economic growth: views and agenda", *Journal of Economic Literature*, 35, 688-726.

Topic 4: Land

Text: Ray Chapter 12; Bardhan and Udry, Chapter 6; Basu, Chapter 12.

- Discussion Paper:
- 1) Shaban (1987), "Testing between models of sharecropping", *Journal of Political Economy*, 95, 893-920.
 - 2) Banerjee, Gertler and Ghatak (2002), "empowerment and Efficiency: Tenancy reform in West Bengal", *Journal of Political Economy*, 110, 239-280.

Topic 5: Labour Markets

Text: Ray Chapter 13; Bardhan and Udry, Chapter 4; Basu, Chapter 10

Discussion Paper: 1) Swamy, A. (1997) "A simple test of the nutrition-based efficiency wage model", *Journal of Development Economics*, 53, 85-99.

Topic 6: Health and Nutrition

Text: Bardhan and Udry, Chapter 10.

Discussion Paper: 1) Strauss, J. and D. Thomas (1998) "Health, Nutrition and Economic Development", *Journal of Economic Literature* 36(2): 766-817.
2) Thomas, Duncan and John Strauss. 1997 "Health and Wages: Evidence on Men and Women in Urban Brazil" *Journal of Econometrics*, 77 pp. 159-185

Topic 7: Learning and Technology

Text: Bardhan and Udry, Chapter 12; Basu, Chapter 11.

Discussion Papers: 1) Foster, A. and M. Rosenzweig (1995) "Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture", *Journal of Political Economy* 103(6): 1176-1209.
2) Conley, T. and C. Udry (2003) "Learning about a New Technology: Pineapple in Ghana", manuscript, Yale University.
<http://www.econ.yale.edu/~udry/pdf/conleyudry.pdf>

Topic 8: Education

Discussion Papers: 1) Bils, M and PJ Klenow (2000) "Does Schooling Cause Growth?", *American Economic Review* 90(5): 11160-1183
2) 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
3) Behrman, Jere, Andrew Foster, Mark Rosenzweig and Prem Vashishtha. 1999. "Women's Schooling, Home Teaching and Economic Growth", *Journal of Political Economy*.
4) Lam and Schoeni (1993) "Effects of family background on earnings and returns to schooling: evidence from Brazil," *Journal of Political Economy*, 101(4), 710-740.

Topic 9: Further Topics in Economic Development

A. Program analysis and evaluation

Discussion Paper: 1) Kremer, Michael and Ted Miguel. 2001. "Worms: education and health externalities in Kenya" <http://papers.nber.org/papers/W8481>
2) TBA

B. Rural-Urban Migration

Text: Ray, Chapter 10; Basu Chapter 8 and 9

Discussion Paper: 1) Harris, J. and M. Tadaró (1970) "Migration, unemployment and development: a two sector analysis," *American Economic Review*, 40, 126-142.
2) TBA

C. Environment

Text: Bardhan and Udry, Chapter 13

Discussion Paper: 1) Timmins, Christopher. 2002, "Health and Climate Change in the Developing World: The Impact of Global Warming on Brazilian Morbidity Patterns",
http://www.econ.yale.edu/~timmins/EDE_Timmins.pdf
2) TBA.