



Development Economics II: Microeconomic Aspects of Development (Master of Science in International Economics and Economic Policy)

Lecturer: Dany Jaimovich

Office: RuW 4.253

Email: jaimovich@econ.uni-frankfurt.de

Web: www.danyjaimovich.com

Office Hours: Mondays, 14:00-16:00 (appointment via email required).

Teaching Assistant: Simon Heß

Office: RuW 4.259

Email: hess@econ.uni-frankfurt.de

Office Hours: Appointment via email.

Lecture: Tuesdays 10:15 - 11:45, RuW 4.202

Review session (RS): Fortnightly on Wednesdays 14:15 - 15:45, RuW 4.202

Course support material: Slides and papers will be posted regularly on OLAT intranet.

1 Overview

The most famous graduate microdevelopment textbook (Bardhan and Udry, 1999) starts its preface with this intriguing Tolstoyan sentence: “All happy families are alike but an unhappy family is unhappy after its own fashion.” In the present course we aim to shed light on the meaning of this *riddle* through the study of aspects of the economic development process using microeconomic theory and microeconometric data analysis.

This course provides a “household perspective” of a series of topics related to the process of integration to the contemporary economic life and the description of poverty conditions and its determinants in the so-called “less developed countries”. One section of the course will be devoted to the description of the household decision process, both as a consumer and a producer, under conditions of missing or incomplete markets. Another part of the course will be dedicated to the analysis of the conditions that determine the incapability to reach well-being and the lack of opportunities to effectively participate in a society, as well as to some of the individual and social consequences of poverty.

A distinction between rural and urban households will often be made, since the transition from the traditional agricultural production to the modern production sectors (mainly located in urban areas) is at the core of the main theories of economic development.



2 Format

Lectures are expected to be interactive and not merely expository. For each session, students must read beforehand at least the mandatory material (marked with an *). A complete understanding of the technical aspects of the readings is not necessary, but the students must be familiar with the subject in order to participate actively in the discussions during the class. For each topic, a list of additional references is provided.

While normative discussion will be encouraged, the focus of the class will be on methodological aspects. It is not enough to like or dislike theory A or B, but to understand their underlying arguments and technical aspects as well as how rigorous researchers have tried to test them with real world data. The main microeconomic models and the most widely used microeconometric techniques for the analysis of data related to the course's topics will be described (and criticized) in lectures and review sessions.

There will be two types of problem sets that will be discussed during the review sessions: (i) Exercises related to the theory models studied, and (ii) the use of real data to reproduce and expand previous results from empirical studies.

3 Requirements

It is assumed that students have prior knowledge of econometrics at the level of “Fundamentals of Econometrics” and knowledge of microeconomic theory at the level of “Fundamentals of Microeconomics.”

4 Evaluation

Evaluation will be based primarily on a final exam (80% of the grade). In addition, there will be two kinds of problem sets:

- Theory problem sets (10%): There will be four problem sets with exercises and analysis of relevant papers. We will randomly pick one of these problem sets for evaluation.
- Empirical replication (10%): Students will be asked to work with data to replicate and expand results from a famous development paper using STATA software. The expected outcomes are a short paper-like report (therefore results must be described and discussed) and a *do file*.



5 Topics and readings

For each topic a list of the relevant related studies is provided, but most of the aspects of the course are treated in the following three books:

- Pranab K. Bardhan and Christopher Udry. *Development Microeconomics*. Oxford University Press, Oxford, UK, 1999 (henceforth BU).
- Debraj Ray. *Development economics*. Princeton University Press, 1998 (henceforth RAY).
- Abhijit Banerjee and Esther Duflo. *Poor economics: A radical rethinking of the way to fight global poverty*. PublicAffairs Store, 2011 (henceforth PE).

1. Introduction: What is “Development Economics”?

- (*) BU: Chapter 1.
- (*) PE: Chapter 1.
- Marcel Fafchamps. Solidarity networks in preindustrial societies: Rational peasants with a moral economy. *Economic development and cultural change*, 41(1):147–174, 1992.
- Amartya Sen. The concept of development. *Handbook of development economics*, 1:9–26, 1988.
- For a thoughtful critique of RCTs read:
Angus Deaton. Instruments, randomization, and learning about development. *Journal of economic literature*, 48(2):424–455, 2010.
- If you want to understand why development economists spend time on field work read:
Christopher Udry. Fieldwork, economic theory, and research on institutions in developing countries. *The American Economic Review*, 93(2):107–111, 2003.

2. Household economics: Agricultural household model and non-separability

- (*) Christopher Udry. Efficiency and market structure: Testing for profit maximization in African agriculture. In G. Ranis and L. K. Raut, editors, *Trade, Growth and Development. Essays in Honor of Professor T.N. Srinivasan*. Elsevier Science, Amsterdam, The Netherlands, 1999.
- BU: Chapter 2.
- J Edward Taylor and Irma Adelman. Agricultural household models: Genesis, evolution, and extensions. *Review of Economics of the Household*, 1(1-2):33–58, 2003



3. Household economics: Unitary and efficient households

- (*) PE: Chapter 5.
- (*) Esther Duflo and Christopher Udry. Intrahousehold resource allocation in Cote d'Ivoire: Social norms, separate accounts and consumption choices. NBER Working Papers 17743, 2004.
- Christopher Udry. Gender, agricultural production, and the theory of the household. *Journal of Political Economy*, 104(5):1010–1046, 1996.
- Duncan Thomas. Intra-household resource allocation: An inferential approach. *Journal of Human Resources*, pages 635–664, 1990.

4. Incomplete markets

- (*) Alain de Janvry, Marcel Fafchamps, and Elisabeth Sadoulet. Peasant household behaviour with missing markets: Some paradoxes explained. *Economic Journal*, 101(409):1400–417, 1991. (Only sections I and II are mandatory readings)
- (*) Nigel Key, Elisabeth Sadoulet, and Alain de Janvry. Transactions costs and agricultural household supply response. *American Journal of Agricultural Economics*, 82(2):245–59, 2000.
- RAY: Chapter 11.
- Marc F. Bellemare and Christopher B. Barrett. An ordered Tobit model of market participation: Evidence from Kenya and Ethiopia. *American Journal of Agricultural Economics*, 88(2):324–337, 2006.
- Dany Jaimovich. Missing links, missing markets: Evidence of the transformation process in the economic networks of Gambian villages. *World Development*, 66:645–664, 2015.

5. Rural markets I: Land

- (*) RAY: Chapter 12.
- BU: Chapter 6.
- Markus Goldstein and Christopher Udry. The profits of power: Land rights and agricultural investment in Ghana. *Journal of Political Economy*, 116(6):981–1022, 2008.
- Joseph E Stiglitz. Incentives and risk sharing in sharecropping. *The Review of Economic Studies*, 41(2):219–255, 1974.



- Abhijit V Banerjee, Paul J Gertler, and Maitreesh Ghatak. Empowerment and efficiency: Tenancy reform in West Bengal. *Journal of political economy*, 110(2):239–280, 2002.

6. Rural markets II: Labor

- (*) RAY: Chapter 13.
- (*) Seema Jayachandran. Selling labor low: Wage responses to productivity shocks in developing countries. *Journal of Political Economy*, 114(3):538–575, 2006.
- BU: Chapter 4.
- Hanan Jacoby. Shadow wages and peasant family labour supply: An econometric application to the Peruvian sierra. *Review of Economic Studies*, 60(4):903–921, 1993.

7. Rural markets III: Capital and credit

- (*) RAY: Chapter 14.
- (*) Dean Karlan and Jonathan Zinman. Observing unobservables: Identifying information asymmetries with a consumer credit field experiment. *Econometrica*, 77(6):1993–2008, 2009
- BU: Chapter 7.
- Timothy Besley, Stephen Coate, and Glenn Loury. Rotating savings and credit associations, credit markets and efficiency. *Review of Economic Studies*, 61(4):701–19, October 1994.
- Dean Karlan and Jonathan Morduch. Access to finance. volume 5 of *Handbook of Development Economics*, chapter 71. Elsevier, 2010.

8. Coping with risk

- (*) Marcel Fafchamps and Flore Gubert. The formation of risk sharing networks. *Journal of Development Economics*, 83(2):326–350, 2007.
- RAY: Chapters 15.
- BU: Chapter 8.
- Robert Townsend. Risk and insurance in village India. *Econometrica*, 62:539–591, 1994.



9. Migration

- (*) RAY: Chapter 10.
- (*) Sir W. Arthur Lewis. Economic development with unlimited supplies of labour. *Manchester School*, 22:139–191, 1954.
- John R. Harris and Michael P. Todaro. Migration, unemployment and development. *American Economic Review*, 60(1):126–142, 1970.
- Alwyn Young. Inequality, the urban-rural gap and migration. *The Quarterly Journal of Economics*, forthcoming.

10. Poverty and inequality measures

- (*) Shaohua Chen and Martin Ravallion. The developing world is poorer than we thought, but no less successful in the fight against poverty. *The Quarterly Journal of Economics*, 125(4):1577–1625, 2010.
- RAY: Chapters 6, 7, and 8.
- François Bourguignon and Christian Morrisson. Inequality among world citizens: 1820-1992. *American economic review*, 92(4):727–744, 2002.
- Xavier Sala-i Martin. The world distribution of income: falling poverty and convergence, period. *The Quarterly Journal of Economics*, 121(2):351–397, 2006.
- Martin Ravallion. The idea of antipoverty policy. NBER Working Papers 19210, 2013.

11. Nutrition and poverty traps

- (*) PE: Chapter 2.
- (*) Robert T Jensen and Nolan H Miller. Giffen behavior and subsistence consumption. *American Economic Review*, 98(4):1553–1577, 2008.
- RAY: Chapter 9.
- Nancy Qian. Missing women and the price of tea in China: The effect of sex-specific earnings on sex imbalance. *The Quarterly Journal of Economics*, 123(3):1251–1285, 2008.
- BU: Chapter 3.
- Duncan Thomas and John Strauss. Health and wages: Evidence on men and women in urban brazil. *Journal of Econometrics*, 77(1):159–185, 1997.



12. Health

- (*) PE: Chapter 3.
- (*) Jessica Cohen and Pascaline Dupas. Free distribution or cost-sharing? evidence from a randomized malaria prevention experiment. *Quarterly Journal of Economics*, 125(1):1–45, 2010.
- Edward Miguel and Michael Kremer. Worms: Identifying impacts on education and health in the presence of treatment externalities. *Econometrica*, 72(1):159–217, 2004.

13. Education

- (*) PE: Chapter 4.
- (*) Esther Duflo, Rema Hanna, and Stephen P. Ryan. Incentives work: Getting teachers to come to school. *American Economic Review*, 102(4):1241–1278, 2012.
- Tessa Bold, Mwangi Kimenyi, Germano Mwabu, and Justin Sandefur. Does abolishing fees reduce school quality? evidence from Kenya. CSAE Working Papers WPS/2011-04, 2011.

14. Social and economic networks

- (*) Abhijit Banerjee, Arun G. Chandrasekhar, Esther Duflo, and Matthew O. Jackson. The diffusion of microfinance. *Science*, 341(6144):363–371, 2013.
- Dany Jaimovich. Macrostructure and microstructure: Evidence from overlapping village networks in the Gambia. MPRA Paper 38932, 2011.
- Oriana Bandiera and Imran Rasul. Social networks and technology adoption in northern Mozambique. *Economic Journal*, 116(514):869–902, 2006.

15. The development debate today

- (*) How Can Policy and Aid Help in Bringing down World Poverty?
<http://www.youtube.com/watch?v=7B9Pec9GD64>
- (*) PE: Chapter 10.
- David Roodman. The anarchy of numbers: Aid, development, and cross-country empirics revised. *World Bank Economic Review*, 21(2):255–277, 2008.