

# PA 5503 ECONOMICS OF DEVELOPMENT

Fall 2016, 3 credits

**Professor Ragui Assaad**

Humphrey School of Public Affairs – University of Minnesota

Class times & meeting place: Tuesday and Thursday 2:30-3:45 in HHH 20.

Prerequisite: PA 5501, Theories and Policies of Development. May be taken concurrently.

## **Contact information:**

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Occasional instructor:

Professor Deborah Levison, Humphrey School of Public Affairs

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Office: 266 Humphrey Center.

## **Course design:**

This course was developed jointly by Ragui Assaad and Deborah Levison. While Professor Assaad is the instructor of record – he will deliver most of the lectures, do most or all of the grading, and assign final grades – Professor Levison will deliver some lectures and lead discussions throughout the semester, when Professor Assaad is out of the country.

## **Course description:**

This course will cover topics such as economic growth, inequality, poverty, rural and urban labor markets, investments in human capital, risk and uncertainty, credit markets, gender and household economics, governance and institutional issues, and health and nutrition. Policy issues covered include microfinance, conditional cash transfers, and labor and education policies.

## **Learning objectives:**

By the end of the course, students should be able to recognize, understand, and occasionally apply the following economic concepts:

- Income/substitution effects, price and income elasticities of supply and demand
- Marginal utility/product; marginal thinking vs. average thinking, resource allocation under constraints
- Economic growth, production functions, growth decomposition
- Measures of poverty and inequality

- Private vs. social returns (externalities)
- Assumptions of unitary vs. collective household models (bargaining, cooperation, conflict, agency)
- Behavioral economics and departures from neoclassical rationality
- Game theory and the analysis of cooperative vs non-cooperative behavior, free riding and collective action
- Analyzing risk and uncertainty, credit and insurance market imperfections
- Contracting and transaction costs, information asymmetry, coordination failures.
- Principal-agent models, aligning of incentives, choice of contracts
- Path dependency, role of institutions, rules of the game, rent-seeking, governance failures

### **Course requirements and grading:**

**Course website:** There is a Moodle course website where students can find the syllabus, list of required readings and where they can post weekly reflections and problem sets.

### **Required books:**

Julie Schaffner (2014) *Development Economics: Theory, Empirical Research and Policy Analysis*.

Abhijit V. Banerjee and Esther Duflo (2011) *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, New York: Public Affairs. In paperback, this costs about \$10 via the internet.

### **Recommended book:**

Dasgupta, Partha. 2007. *Economics: A very short introduction*. Oxford: Oxford University Press. (\$6-\$10 on Amazon)

**Reflections on readings.** To inspire timely reading of the articles and to ensure that students think about what they are reading, a very short commentary on readings will be required most weeks. This may apply to podcasts or online videos as well. Reflections on all readings, podcasts, etc. for the coming week should be posted to the web by **Tuesday at 9 am**. They should consist of one substantive thought/comment/reaction to each “reading.” You need not comment on the **recommended** readings. Reflections should not exceed one-half page per posting. If for any technical reason you are unable to post, you may instead email your reflections to the instructor.

Reflections are due every week, but you will be allowed to skip up to 2 weeks of your own choosing in the entire semester without incurring a reduction in your grade.

On the Moodle site, go to “Post Assignments” to post your reflections on the readings. Be sure to choose the Topic number corresponding to the syllabus!! It is recommended that you write your commentary in a word processor and cut and paste it into the web window. Keep it short!

Tips for writing comments:

- refer to readings by the LAST NAME of the first author
- refer to EACH reading, at least briefly
- do NOT summarize readings

Reflections will not receive letter grades. They will be checked off as check-minus (unsatisfactory to weak), or check (satisfactory to excellent). Grading criterion: thoughtfulness of the comments. Lateness will be penalized separately.

**Problem sets.** A short problem set will be due most weeks, posted to Moodle. Students will be expected to bring a hard copy to the class that follows the due date, where answers will be discussed in small groups and with the instructor. No other answers will be provided. Problem sets will not receive letter grades. They will be graded as check-minus (unsatisfactory to weak), or check (satisfactory to excellent).

You are encouraged to discuss and work on the assigned problems with classmates, but please submit your own answer.

Assignments will be graded according to criteria specified in advance, to the extent possible. The following standards are, however, always (or almost always) in effect:

- If a written explanation was required, then content, organization, grammar, and spelling will be used in evaluation. Corrections will not be made.
- At least 12-point font and at least one-inch margins must be used.
- Lateness will be penalized.

**Exams.** There will be two take-home open-book, open-notes exams (mid-term and final). The exams are individual exercises where it is strictly prohibited to discuss the contents of the exam with colleagues or anyone else other than the instructor. If evidence of cooperation emerges on the exam, it will be treated as cheating and will be subject to university disciplinary procedures as well as sanction.

**Class participation.** Class participation is an important part of each final grade. Elements of class preparation include attendance, lateness, timely reading and professional comments on other students' reflections or answers, and respect for your classmates. Other elements may be added.

A note on attendance: Missing classes and/or being late regularly will lower your class participation grade, regardless of whether you learn the material or not. (Exception: regular lateness because of dashing from another class – if you inform the instructor at the beginning of the semester.) Please contact the instructor – before class – if you are ill and cannot attend.

**Workload expectations.** According to University policy, undergraduates are expected to spend 3 hours on homework per credit hour per week, on average, in order to achieve an average grade. For this class, that means that 9 hours per week on homework would be expected for undergraduates. Expectations are higher for graduate students.

**Extra credit.** No extra credit will be allowed in this class.

**Final grades.** These weights in percentages are approximate since your final grade will depend in part on your performance relative to an absolute standard.

**Final grade breakdown,** approximately:

- 15% Reflections on readings
- 25% Problem Sets
- 45% Exams
- 15% Class participation

**Missed exams and late work.** Missed exams can be made up if the instructor is informed in advance and agrees that the reason for delay is valid. Late work will be marked down at the instructor's discretion. Students will not be penalized for absence during the semester due to unavoidable or legitimate circumstances. Such circumstances include verified illness, participation in intercollegiate athletic events, subpoenas, jury duty, military service, bereavement, and religious observances. Such circumstances do not include voting in local, state, or national elections. For complete information, please see:  
<http://policy.umn.edu/Policies/Education/Education/MAKEUPWORK.html>

**Incompletes.** This course follows the Humphrey School policy regarding incompletes. An incomplete will only be granted after the instructor and the student have mutually agreed upon a timetable (written contract) for completion of coursework. An incomplete must be requested in advance, and the Humphrey School incompletes form must be filled out. The form is on-line at:

**Disabilities.** It is University policy to provide, on a flexible and individualized basis, reasonable accommodations to students who have disabilities that may affect their ability to participate in course activities or to meet course requirements. Students with disabilities are encouraged to contact their instructor early in the semester to discuss their individual needs for accommodations. Accommodations must be arranged in advance. Further information is available from Disabilities Services (230 McNamara Hall). <https://diversity.umn.edu/disability/>

**Electronics in class.** You may use your laptop computer in class for note-taking or (rarely) looking up answers to questions that come up in class. You may not use it for checking email or Facebook or anything else. It's very tempting – and also disrespectful to your instructor and your colleagues, not to mention detrimental to your education. First offenders are asked to turn off the computer for the class. Second offenders are required to keep computers put away for the rest of the semester. Similarly, **cell phones and smart phones** and the like may be kept on and visible by people with small children or similar responsibilities (but tell the instructor); everyone else is expected to keep their electronics out of sight and out of hearing.

**Academic integrity.** Academic integrity is essential for a positive teaching and learning environment. All students enrolled in this course are expected to complete course-related responsibilities with fairness and honesty. Failure to do so by seeking unfair advantage over others, by misrepresenting someone else's work as your own, or by another kind of scholastic dishonesty can result in disciplinary action, including receiving an F or an N for the course.

**Scholastic misconduct** is broadly defined as any act that violates the right of another student in academic work or that involves misrepresentation of your own work. Scholastic dishonesty includes, (but is not necessarily limited to): cheating on assignments or examinations; plagiarizing, which means misrepresenting as your own work any part of work done by another; submitting the same paper, or substantially similar papers, to meet the requirements of more than one course without the approval and consent of all instructors concerned; depriving another student of necessary course materials; or interfering with another student's work. (Student Conduct Code:

[http://regents.umn.edu/sites/regents.umn.edu/files/policies/Student\\_Conduct\\_Code.pdf](http://regents.umn.edu/sites/regents.umn.edu/files/policies/Student_Conduct_Code.pdf)

**Sexual harassment.** "Sexual harassment" means unwelcome sexual advances, requests for sexual favors, and/or other verbal or physical conduct of a sexual nature. Such conduct has the purpose or effect of unreasonably interfering with an individual's work or academic performance or creating an intimidating, hostile, or offensive working or academic environment in any University activity or program. Such behavior is not acceptable in the University setting. For additional information, please consult Board of Regents Policy:

<http://regents.umn.edu/sites/default/files/policies/SexHarassment.pdf>

**Equity, diversity, equal opportunity, and affirmative action:** The University will provide equal access to and opportunity in its programs and facilities, without regard to race, color, creed, religion, national origin, gender, age, marital status, disability, public assistance status, veteran status, sexual orientation, gender identity, or gender expression. For more information, please consult Board of Regents Policy:

[http://regents.umn.edu/sites/default/files/policies/Equity\\_Diversity\\_EO\\_AA.pdf](http://regents.umn.edu/sites/default/files/policies/Equity_Diversity_EO_AA.pdf).

**Appropriate student use of class notes and course materials:** Taking notes is a means of recording information but more importantly of personally absorbing and integrating the educational experience. However, broadly disseminating class notes beyond the classroom community or accepting compensation for taking and distributing classroom notes undermines instructor interests in their intellectual work product while not substantially furthering instructor and student interests in effective learning. Such actions violate shared norms and standards of the academic community. For additional information, please see:

<http://policy.umn.edu/Policies/Education/Education/STUDENTRESP.html>.

## **Resources for Success:**

**Center for Writing's Student Writing Support.** Student Writing Support provides free writing instruction for all University of Minnesota students – graduate and undergraduate – at all stages of the writing process. They help students develop productive writing habits and revision strategies via in-person consultations. See [Center for Writing](#). It is also possible to submit short papers online to the Student Writing Support page at the Center for Writing and get comments and feedback from experienced writing tutors.

**Mental health.** As a student you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, feeling down, difficulty concentrating and/or lack of motivation. These mental health concerns or stressful

events may lead to diminished academic performance or reduce a student's ability to participate in daily activities. University of Minnesota services are available to assist you with addressing these and other concerns you may be experiencing. You can learn more about the broad range of confidential mental health services available on campus via the Student Mental Health Website at:

<http://www.mentalhealth.umn.edu> .

## Schedule of Readings & Assignments

*Try to read the selections in the order listed.*

### Topic 1 – Development as the Pursuit of Well-being – September 6 & 8

*Readings* [41 easy pages]:

- Make sure to read the entire syllabus.
- Schaffner, Chapter 2, “Well-being” (25 pages)
- Poor Economics, Chapters 1, “Think Again, Again” (16 pages)

Be prepared to critique what you have read.

*Recommended:*

- Development Ideas video: Amartya Sen on “Beyond GDP” (9:30)

### Topic 2 – Economic Growth – September 13 & 15

Don't forget to post reflections on the *Topic 1 & 2* readings by Tuesday, September 13, 9 am.  
See syllabus p. 2 for instructions.

*Readings* [53 pages]:

- Schaffner Chapter 3, “Economic Growth” (26 pages). Skim sections that you have covered in other classes.
- Schaffner Chapter 4, “Economic Growth Theory in Historical Perspective” – **you can skip section 4.4** (thus, 27 hard pages)

*Recommended:*

- Development Ideas video: Shahid Yusuf on “Growth Economics,” 5:20 (5 minutes, 20 sec.)
- Commission on Growth and Development (2008) *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, Washington, D.C.: The World Bank. Read Part I, pp. 17-31.

- Fajnzylber and Lederman (20xx) “Economics Reforms and Total Factor Productivity Growth in Latin America and the Caribbean, 1950-95: An Empirical Note,” The World Bank. *Especially see Table 1 (page 18), to see what a growth decomposition looks like.*

*Topic 2 problem set. Post by Saturday 9/17 at 6 pm:*

- Schaffner Chapter 3, #1
- Schaffner Chapter 4, #3a, 3b

### **Topic 3 –Poverty, Inequality and Vulnerability – September 20 & 22**

*Readings* [51 pages]:

- Schaffner Chapter 5, “Poverty, Inequality and Vulnerability” (25 pages)
- Banerjee and Duflo, Chapter 6. “Barefoot Hedge Fund Managers” pp. 133-147. **Skip pages 147-155 for now.** (15 pages)
- Guarcello, Kovrova & Rosati (2007) “Child Labour as a Response to Shocks: Evidence from Cambodian Villages,” UCW Working Paper, June 2007. **Skip pages 6-7, 11-12.** (11 pages)

*Recommended:*

- Development Ideas video: Frances Stewart on “Inequality” (8:29)

*Topic 3 problem set. Post by Saturday 9/24 at 6 pm:*

- Schaffner Chapter 5, #1, 2

### **Topic 4 – Economics of Household Decision-Making & Markets: Consumption, Time Allocation and Production Choices – September 27 & 29**

*Readings* [58 pages]:

- Schaffner Chapter 6, “Consumption, Time Allocation and Production Choices” (37 pages)

This chapter includes basic microeconomic tools that we will use throughout the rest of the semester. Do you have any problems with standard economic assumptions or theories presented here? How can you critique the child labor model (section 6.3)?

- Banerjee & Duflo, Chapter 2, “A Billion Hungry People” (21 pages)

*Topic 4 problem set. Post by Saturday 10/1 at 6 pm:*

- Schaffner Chapter 6. #2, 3.

Note: in problem 3a, change the word “food” to “rice.”

(scan hand-drawn figures on a Humphrey copier; type in your email address; save the file that is emailed; then post to Moodle)

## **Topic 5 – Econ. of Household Decision-Making & Markets: Unitary and Collective Household Models – October 4 & 6**

*Readings* [61 pages]:

- Schaffner Chapter 7, “Households”. Skip sections 7.3C and 7.3D, but read 7.3E. (27 pages)
- Banerjee & Duflo, Chapter 5, “Pak Sudarno’s Big Family,” pp. 103-129. (27 pages)

*Topic 5 problem set. Post by Saturday 10/8 at 6 pm:*

- Schaffner Chapter 7: Discussion Question #1, Problem #3

## **Topic 6 – Econ. of Household Decision-Making & Markets: Domestic Markets for Goods and Services – October 11 & 13**

*Readings* [31 pages]:

- Schaffner Chapter 8, “Domestic Markets for Goods and Services” (31 pages)

The **take-home mid-term exam** will be made available Thursday 10/13, to be posted by Monday 10/17 at 6 pm.

## **Topic 7 – Labor Markets – October 18 & 20**

*Readings* [37 pages]:

- Schaffner Chapter 9, “Labor Markets” (37 pages)

Think of (and jot down) situations from your experience that fit the various employment contracts and labor arrangements described here.

*Topic 7 problem set. Post by Saturday 10/22 at 6 pm:*

- Schaffner Chapter 9: Discussion Questions #2, 4

*Recommended:*

Assaad, R. 2013. “Making Sense of Arab Labor Markets: The Enduring Legacy of Dualism.”

## **Topic 8 – Education and the Human Capital Model – October 25 & 27**

*Readings* [59 pages]:

- Schaffner, Chapter 19, “Education” (29 pages)
- Banerjee & Duflo, Chapter 4, “Top of the Class,” page 71-101 (30 pages)

*Topic 8 problem set. Post by Saturday 10/29 at 6 pm:*

- Schaffner, Chapter 19: #2

## **Topic 9 – Savings, Investments and Financial markets – November 1 & 3**

*Readings* [53 pages]:

- Schaffner Chapter 10, “Investment and Financial Markets” – **don’t read section 10.2C** (thus 31 pages)
- Banerjee & Duflo, Chapter 8, “Saving Brick by Brick,” pp. 183-204. (22 pages)

*Topic 9 problem set. Post by Saturday 11/5 at 6 pm:*

- Schaffner, Chapter 10: #3

## **Topic 10 – Microfinance – November 8 & 10**

*Readings* [56 pages]:

- Schaffner Chapter 21, “Microfinance” (31 easy pages)
- Banerjee, A., E. Duflo, N. Goldberg, D. Karlan, R. Osei, W. Pariente, J. Shapiro, B Thuysbaert, C. Udry (2015). “A multifaceted program causes lasting progress for the very poor: Evidence from six countries.” *Science* 348(6236): 1-16.

*Recommended:*

- Banerjee & Duflo, Chapter 7, “The Men from Kabul and the Eunuchs of India: The (Not So)

Simple Economics of Lending to the Poor,” pp. 157-181 (25 pages).

*Topic 10 problem set. Post by Saturday 11/12 at 6 pm:*

- Schaffner, Chapter 21: Discussion Questions #7 and Problem #1.

## **Topic 11 – Institutions, Cooperation and the Provision of Public Goods – November 15, 17.**

**Class cancelled on 11/22**

*Readings* [36 pages]:

- Schaffner, Chapter 12, “Institutions and Cooperation” (36 pages) – ok to skip over the equations in the Repeated Prisoner’s Dilemma Game

*Recommended:*

- Prisoner’s Dilemma video: <http://www.youtube.com/watch?v=jUTWcYXVR5w> (2:59)
- Development Ideas video: Shantayanan Devarajan on “Government vs. Market Failure” (3:06)

*Topic 11 problem set. Post by Saturday 11/19 at 6 pm:*

- Schaffner, Chapter 12: #1, 2

## **Topic 12 – Governance & Political Economy – November 29 and December 1**

*Readings* [62 pages]:

- Schaffner Chapter 13, “Policy, Governance and Political Economy” (37 pages)

This chapter summarizes a large body of literature, much of which is called “institutional economics.”

- Acemoglu, Daron & James Robinson (2012) *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, New York: Crown Business. Read Chapter 3, “The Making of Prosperity and Poverty: The Economics of the 38<sup>th</sup> Parallel,” pp. 70-95. (25 pages)

Acemoglu is pronounced like “Ah-jeh-moh-lu”. This book provides a sweeping explanation of the differential economic performance of nations based on the nature and history – that is, path dependency – of their institutions.

*Recommended Reading:*

- Hallward-Driemeier, Mary, Gita Khun-Jush, and Lant Pritchett (2010) “Deals Versus Rules: Policy Implementation Uncertainty and Why Firms Hate It,” HKS Faculty Research Working Paper Series, RWP10-027, John F. Kennedy School of Government, Harvard

University. Previously published in Working Paper Series, 16001, National Bureau of Economic Research Working Papers, 2010.

This includes a good discussion of how uncertainty in the enforcement of rules is a major constraint to economic growth in Africa. The constraints that firms face are more likely to be based on the deals that they can make with public officials; these deals therefore vary greatly across firms.

- Video on Anne Krueger's views on rent-seeking, duration 4:37 minutes.  
<http://mruniversity.com/courses/development-economics/anne-krueger>

*Topic 12 problem set. Post by Saturday 12/3 at 6 pm:*

- Schaffner, Chapter 13: #1, 2

### **Topic 13 – Health & nutrition – December 6 & 8 (Levison)**

Professor Levison will teach class for the week.

*Readings* [65 pages]:

- Schaffner, Chapter 22, “Public Health, Health Care and Health Insurance” – **skip section 22.3** (19 pages).
- Banerjee & Duflo, Chapter 3, “Low-Hanging Fruit for Better (Global) Health?” pp. 41-70 (29 pages).
- Das, Hammer & Leonard (2008) “The Quality of Medical Advice in Low-Income Countries,” *Journal of Economic Perspectives* 22(2): 93-114. (17 pages)

Focus on incentives. Think about policies that might affect incentives.

- Lybbert, Travis J. (2011). “Hybrid Public-Private Delivery of Preventative Lipid-Based Nutrient Supplement Products: Key Challenges, Opportunities and Players in an Emerging Product Space.” *SCN News* 39: 32-39. (8 pages)

*Topic 13 problem set. Post by Saturday, December 10th at 6 pm:*

- Schaffner, Chapter 22: #1

#### **Additional Resources:**

International Lipid-Based Nutrient Supplements Project: <http://www.ilins.org/>

## Topic 14 – Conclusion – December 13 (Levison)

*Readings* [36 pages]:

- Banerjee & Duflo, Chapter 10, “Policies, Politics,” pp.235-265. (30 pages)
- Banerjee & Duflo, “In Place of a Sweeping Conclusion,” pp. 267-273 (6 pages)

Course evaluations.

The **final examination** will be an open-book, open-notes take-home. It will be made available on Wednesday, December 14<sup>th</sup> at 9 am via Moodle, and it will be due back on Moodle on Sunday, December 18th, at 9pm.