

# Econ 242: Economic Development

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### Objectives

This course has two objectives: (1) to familiarize you with core research questions in economic development, and (2) to train you through repeated practice to evaluate the quality and significance of research – both others’ and your own.

Thematically the course is motivated by two questions: how can poor countries benefit from being in a rich world, and what constraints limit this? To understand the first question we will study the descriptive “growth accounting” literature, which argues that development is a process of accumulating capital and knowledge and tries to understand the relative importance of these factors. We will then turn to the second question and examine two kinds of constraints: those that are specific to capital and knowledge, respectively (incomplete capital markets, learning externalities) and those that are generic to any kind of investment (poverty traps, missing complementary institutions).

The course is thus macroeconomic more in motivation than in method, though we will read several papers by “macroeconomists”.

### Methods

Class time will be divided between lectures and discussions. Lectures will generally cover theoretical tools and discussions will generally cover related empirical work, but there will be some variation. An integral part of our discussions will be your own short presentations on some of these papers – see below. The syllabus lists required papers for each course meeting, which you should read careful. Recommended papers may be alluded to but will not be discussed in any depth; you should be familiar with these, however, if you plan on doing research in development. In addition I have listed “classic” papers for some topics. These are neither required for the course nor necessary for you to produce cutting-edge research, but they do provide a fascinating perspective on the history of thinking about development. Much has changed since the 1950s, and much has stayed the same.

## Grading

For students enrolled in the economics Ph.D. program, grades will be determined by performance on the following assignments (weights in parentheses):

1. Two in-class presentations of papers listed as “required” for Meeting 4 or thereafter. Please email me your preferences by Meeting 3 and I will assign presentations on a first-emailed, first-served basis. (15% each)
2. One 6-8 page research prospectus. One of your goals for the course should be to identify questions worthy of further examination. For this assignment you will define a specific research question, describe the literature(s) to which it connects, and propose a method for answering the question. The proposal may be for either theoretical or empirical work (or both). (40%, due in class by Meeting 18)
3. One take-home final exam. (30%, handed out after Meeting 20, due back 24 hours later.)

Students not enrolled in the economics PhD program are welcome to take the course for credit by substituting two 2-3 page referee reports for the two in-class presentations. Reports may cover any paper listed on the syllabus.

## Readings

### Part I: Factor Flows

#### 1. Background; Per Capita Income

- Classic: Lewis (1954), Schultz (1964)

#### 2. Understanding PCI Levels and Growth

- Required: Mankiw et al. (1992), Klenow and Rodriguez-Clare (1997)
- Recommended: Solow (1956), Romer (1986), Baumol (1986), De Long (1988), Lucas (1988), Romer (1990), Barro and Sala-i Martin (1992), Islam (1995), Pritchett (1997), Hall and Jones (1999), Frankel and Romer (1999), Acemoglu et al. (2002), Caselli (2005)

#### 3. Capital Flows I: Private Sector – Theory

- Required: Stiglitz and Weiss (1981), Lucas (1990)
- Recommended: Hsieh and Klenow (2009)

#### 4. Capital Flows II: Private Sector – Returns to Capital

- Required: Burgess and Pande (2005), de Mel et al. (2008)
- Recommended: Rajan and Zingales (1998), Banerjee and Duflo (2004), Banerjee and Munshi (2004), Banerjee and Duflo (2005), Udry and Anagol (2006)

#### 5. Capital Flows III: Public Sector

- Required: Burnside and Dollar (2000), Easterly et al. (2004), Werker et al. (2009)
- Recommended: Rajan and Subramanian (2005), Jayachandran and Kremer (2006), Kuziemko and Werker (2006), Rajan and Subramanian (2007), Faye and Niehaus (2009)

- Classic: Domar (1946), Harrod (1948)

#### **6. Knowledge Flows I: Technology Adoption – Theory**

- Required: Banerjee (1992), Niehaus (2011b)
- Recommended: Bala and Goyal (1998), Bramouille and Kranton (2007)

#### **7. Knowledge Flows II: Technology Adoption – Evidence**

- Required: Foster and Rosenzweig (1995), Conley and Udry (forthcoming)
- Recommended: Besley and Case (1993), Munshi (2004), Suri (2009), Comin and Hobijn (n.d.)
- Classic: Griliches (1957)

#### **8. Knowledge Flows III: Factor-Specificity**

- Required: Basu and Weil (1998), Kremer (2002)
- Recommended: Zeira (1998), Acemoglu and Zilibotti (1997)
- Classic: Sen (1959), Hayami and Ruttan (1970)

#### **9. Knowledge Flows IV: Human Capital**

- Required: Rosenzweig (1995), Niehaus (2011a)
- Recommended: Duflo (2001), Banerjee et al. (2007), Muralidharan and Sundararaman (2009)
- Classic: Nelson and Phelps (1966), Schultz (1975)

### **Part II: Generic Impediments**

#### **10. Poverty Traps I: Individual-level**

- Required: Dasgupta and Ray (1986), Banerjee and Mullainathan (2008)

#### **11. Poverty Traps II: Aggregate-level**

- Required: Murphy et al. (1989), Kremer (1993)
- Recommended: Azariadis and Stachurski (2005)
- Classic: Rosenstein-Rodan (1943)

#### **12. Poverty Traps III: Dynamics**

- Required: Banerjee and Newman (1993)
- Recommended: Acemoglu and Zilibotti (1997), Azariadis and Stachurski (2005)

#### **13. Institutions I: Overview & Property Rights – Theory**

- Required: Field (2007), Goldstein and Udry (2008)
- Recommended: Besley (1995), Coate and Morris (1995), de Soto (2000), Acemoglu et al. (2001), Banerjee et al. (2002), Acemoglu (2003), Glaeser et al. (2004)
- Classic: North (1989), North (1999)

#### 14. **Institutions II: Contract Enforcement**

- Required: Hart and Moore (1988), Kranton and Swamy (2008)
- Recommended: McMillan and Woodruff (1999), Banerjee and Duflo (2000), Djankov et al. (2003), Djankov et al. (2008)

#### 15. **Institutions III: Informal Institutions**

- Required: Kandori (1992), Greif (1993)
- Recommended: Greif et al. (1994), Kranton (1996)

#### 16. **Institutions IV: Regulation**

- Required: Djankov et al. (2002), Besley and Burgess (2004)
- Recommended: Rauch (1991), Bertrand and Kramarz (2002)

#### 17. **Corruption I: Overview & Regulation – Theory**

- Required: Shleifer and Vishny (1993), Acemoglu and Verdier (2000)
- Recommended: Svensson (2003)
- Classic: Huntington (1968)

#### 18. **Corruption II: Regulation – Evidence**

- Required: Bertrand et al. (2007), Olken and Barron (2009), Sequeira and Djankov (2010)
- Recommended: Mauro (1995), Svensson (2003)

#### 19. **Corruption III: Redistribution**

- Required: Reinikka and Svensson (2004), Niehaus and Sukhtankar (2011)
- Recommended: Banerjee (1997), Khwaja and Mian (2005), Atanassova et al. (2009)

#### 20. **Corruption IV: Incentives**

- Required: Di Tella and Schargrodsky (2003), Olken (2007)
- Recommended: Niehaus and Sukhtankar (2009)
- Classic: Becker and Stigler (1974)

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