

**Economics 242  
Spring 2014  
TTh 9:30-10:50  
Econ 200**

**Paul Niehaus  
James Rauch**

## **“MACROECONOMICS” OF DEVELOPMENT**

### **Syllabus**

The rise of effective organizations, in both the private and public sector, is a central feature of economic growth and development. This course studies the challenges of creating effective organizations in the developing world. It thus sits in between microeconomic analysis of individual and household behavior, and truly “macroeconomic” analysis of economic aggregates such as capital, labor, and output.

The course has a somewhat unusual structure. There are ten themes, listed A - J in the Course Outline below, which are covered from the perspective of the private sector in the first half of the course and from the perspective of the public sector in the second half of the course. Roughly one lecture will be devoted to each theme in each half of the course. Professor Rauch will teach the first half of the course, on the private sector, and Professor Niehaus will teach the second half of the course, on the public sector. Where possible we aim to relate the challenges facing private and public sector organizations to each other: for example, how is recruiting different in a bureaucracy as opposed to a startup enterprise?

The course requirements are to present and discuss two papers, one in each half of the class, and to complete a final take-home exam. Each in-class presentation and discussion should last about 30 minutes and be structured using slides. The aim of the discussion should be to summarize the paper’s main contributions and say how you might have approached the topic differently, rather than to point out minor flaws in the paper. You may present and discuss any paper for which you obtain prior approval. For Professor Rauch’s section of the course, approval will normally be granted for any paper listed in the syllabus that is not marked with an asterisk, while papers marked with an asterisk will be presented by the professor.

**NOTE: On April 3 only, class will be held in SH 231.**

## COURSE OUTLINE

### I. The Private Sector

#### A. Organizational Capacity

\*Lucas, Robert E. 1978. "On the Size Distribution of Business Firms." *Bell Journal of Economics* 9: 508-523.

Kihlstrom, Richard E. and Laffont, Jean-Jacques. 1979. "A General Equilibrium Entrepreneurial Theory of Firm Formation Based on Risk Aversion." *Journal of Political Economy* 87: 719-748.

\*Lazear, Edward P. 2005. "Entrepreneurship." *Journal of Labor Economics* 23: 649-680.

Rauch, James E. 1991. "Reconciling the Pattern of Trade with the Pattern of Migration." *American Economic Review* 81: 775-796.

#### B. Leadership and Management

\*Bloom, Nicholas; et al. 2013. "Does Management Matter? Evidence from India." *Quarterly Journal of Economics* 128(1): 1-51.

\*Muendler, Marc; Rauch, James E., and Tocoian, Oana. 2012. "Employee Spinoffs and Other Entrants: Stylized Facts from Brazil." *International Journal of Industrial Organization* 30: 447-458.

Karlan, Dean and Valdivia, Martin. 2011. "Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions." *Review of Economics and Statistics* 93(2): 510-527.

#### C. Staffing

\*Beaman, Lori and Magruder, Jeremy. 2012. "Who Gets the Job Referral? Evidence From a Social Networks Experiment." *American Economic Review* 102(7): 3574-3593.

Bertrand, M., Schoar, A., 2006. "The role of family in family firms," *Journal of Economic Perspectives* 20, 73-96.

\*Fairlie, Robert and Robb, Alicia. 2007. "Families, Human Capital, and Small Business." *Industrial and Labor Relations Review* 60(2): 225-245.

\*Muendler, Marc and Rauch, James E. 2012. "Mobilizing Social Capital Through Employee Spinoffs." National Bureau of Economic Research Working Paper No. 18459.

#### D. Incentives

- \*Rauch, James E. 2013. "Employee Spinouts, Social Networks, and Family Firms," National Bureau of Economic Research Working Paper No. 19727 (December).
- Stiglitz, Joseph. 1974. "Incentives and Risk-Sharing in Sharecropping." *Review of Economic Studies* 41(2): 219-255.
- Eswaran, Mukesh and Kotwal, Ashok. 1985. "A Theory of Contractual Structure in Agriculture." *American Economic Review* 75(3): 352-367.
- Shaban, Radwan Ali. 1987. "Testing between competing models of sharecropping." *Journal of Political Economy* 95(5): 893-920.
- Banerjee, Abhijit; Gertler, Paul; and Ghatak, Maitreesh. 2002. "Empowerment and Efficiency: Tenancy Reform in West Bengal." *Journal of Political Economy* 110: 239-280.

#### E. (Lack of) Contracting

- Djankov, Simeon; et al. 2003. "Courts." *Quarterly Journal of Economics* 118(2): 453-517.
- \*Greif, Avner. 1993. "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition." *American Economic Review* 83(3): 525-548, section III only.
- \*McMillan, John and Woodruff, Christopher. 1999. "Interfirm Relationships and Informal Credit in Vietnam." *Quarterly Journal of Economics* 114(4): 1285-1320.
- \*Dixit, Avinash. 2004. *Lawlessness and Economics* (Princeton: Princeton University Press), Chapter 3 only. See also Rauch, James E. "Getting the Properties Right to Secure Property Rights: Dixit's *Lawlessness and Economics*," *Journal of Economic Literature* 43 (June 2005), esp. pp. 482-485.
- Banerjee, Abhijit and Duflo, Esther. 2000. "Reputation Effects and the Limits of Contracting: A Study of the Indian Software Industry." *Quarterly Journal of Economics* 115(3): 989-1017.
- Nunn, Nathan. 2007. "Relationship Specificity, Incomplete Contracts, and the Pattern of Trade." *Quarterly Journal of Economics* 122(2): 569-600.
- Ponticelli, Jacopo. 2013. "Court Enforcement and Firm Productivity: Evidence from a Bankruptcy Reform in Brazil." Booth School of Business Working Paper (December).

## F. Capital

- \*Banerjee, Abhijit V. and Newman, Andrew. 1993. "Occupational Choice and the Process of Development." *Journal of Political Economy* 101: 274-298, section II.C only.
- Stiglitz, Joseph and Weiss, Andrew. 1981. "Credit Rationing in a Model with Imperfect Information." *American Economic Review* 71: 393-410.
- \*Evans, David and Jovanovic, Boyan. 1989. "An Estimated Model of Entrepreneurial Choice under Liquidity Constraints." *Journal of Political Economy* 97: 808-827.
- Hurst, Erik, and Lusardi, Annamaria. 2004. "Liquidity Constraints, Household Wealth and Entrepreneurship." *Journal of Political Economy* 112: 319-347.
- \*Bianchi, Milo and Bobba, Matteo. 2013. "Liquidity, Risk, and Occupational Choices." *Review of Economic Studies* 80(2): 491-511.
- De Mel, Suresh; McKenzie, David; and Woodruff, Christopher. 2008. "Returns to Capital in Microenterprises: Evidence from a Field Experiment." *Quarterly Journal of Economics* 123(4): 1329-1372.
- \*Cabral, Luís M. B. and Mata, José. 2003. "On the Evolution of the Firm Size Distribution: Facts and Theory." *American Economic Review* 93: 1075-90.

## G. Learning

- \*Javorcik, Beata Smarzynska. 2004. "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages." *American Economic Review* 94(3): 605-627.
- \*Blalock, Garrick and Gertler, Paul. 2008. "Welfare Gains from Foreign Direct Investment Through Technology Transfer to Local Suppliers." *Journal of International Economics* 74(2): 402-421.
- \*Muendler, Marc and Rauch, James E. 2014. "What Do Employee Spinoffs Learn From Their Parents? Evidence From International Trade." UCSD Working Paper.

## H. Market Structure

\*Khanna, Tarun and Yafeh, Yishay. 2007. “Business Groups in Emerging Markets: Paragons or Parasites?” *Journal of Economic Literature* 45 (June): 331-372.

Feenstra, Robert C.; Huang, Deng-Shing; and Hamilton, Gary G. 2003. “A Market-Power Based Model of Business Groups.” *Journal of Economic Behavior and Organization* 51: 459-485. See also Feenstra and Hamilton, 2006, *Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan* (Cambridge: Cambridge University Press), Chapters 3 and 4.

Bertrand, M., S. Johnson, K. Samphantharak and A. Schoar, “Mixing Family With Business: A Study of Thai Business Groups and the Families Behind Them,” *Journal of Financial Economics*, June 2008, 88 (3), 466-498.

Belenzon, Sharon, Tomer Berkovitz, and Luis Rios. 2013. “Capital Markets and Firm Organization: How Financial Development Shapes European Corporate Groups.” *Management Science* 59: 1326–1343

## I. Regulation

\*Djankov, Simeon; et al. 2002. “The Regulation of Entry.” *Quarterly Journal of Economics* 117(1): 1-37.

\*Branstetter, Lee; et al. 2013. “Do Entry Regulations Deter Entrepreneurship and Job Creation? Evidence from Recent Reforms in Portugal.” *Economic Journal*, forthcoming.  
<http://onlinelibrary.wiley.com/doi/10.1111/ecoj.12044/pdf>

## J. Politics

\*Fisman, Raymond. 2001. “Estimating the Value of Political Connections.” *American Economic Review* 91(4): 1095-1102.

\*Khwaja, Asim Ijaz and Mian, Atif. 2005. “Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market.” *Quarterly Journal of Economics* 120(4): 1371-1411.

Faccio, Mara. 2006. “Politically Connected Firms.” *American Economic Review* 96(1): 369-386.

## II. The Public Sector

### A. Organizational Capacity / Motivation

\*Besley and Persson. 2009. "The Origins of State Capacity." *American Economic Review* 99(4): 1218-44.

\*Bold et al. 2012. "Interventions & Institutions Experimental Evidence on Scaling up Education Reforms in Kenya"

Acemoglu, Johnson, Robinson. 2001. "The Colonial Origins of Comparative Development." *American Economic Review* 91(5): 1369-1401.

Acemoglu, Johnson, Robinson. 2002 "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *Quarterly Journal of Economics* 107(4): 1231-1294.

Glaeser et al. 2004 "Do Institutions Cause Growth?" *Journal of Economic Growth* 9(3): 271-303.

Acemoglu, Daron. 2003. "Why Not a Political Coase Theorem?" *Journal of Comparative Economics* 31(4): 620-652.

### B. Leadership and Management

\*Jones, Benjamin F. and Olken, Benjamin A. 2005 "Do Leaders Matter?" *Quarterly Journal of Economics* 120(3): 835-864.

\*Murphy, Shleifer, and Vishny. 1991. "The Allocation of Talent." *Quarterly Journal of Economics* 106:503-530.

Klitgaard, Robert. 1988. "Controlling Corruption", chapters 2-3

Chattopadhyay, Raghavendra and Duflo, Esther. 2004. "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India."

Majumdar & Mukand "The Leader as Catalyst: On Mass Movements and the Mechanics of Institutional Change." *Econometrica* 5(9) 1409-1443.

### C. Staffing

\*Besley, Timothy J. and Ghatak, Maitreesh. 2005. "Competition and Incentives with Motivated Agents." *The American Economic Review* 95(3): 616-636.

- \*Dal Bo, Finan and Rossi. 2013. "Strengthening State Capabilities: the Role of Financial Incentives in the Call to Public Service." *Quarterly Journal of Economics* 128(3): 1169-1218 .
- Muralidharan, Karthik and Sundararaman Venkatesh. 2013. "Contract Teachers: Experimental Evidence from India." NBER Working Paper No. 19440.
- Rauch, James. 1995. "Bureaucracy, Infrastructure, and Economic Growth: Evidence from U.S. Cities During the Progressive Era." *American Economic Review* v85: 968-979.
- Evans, Peter and Rauch, James. 2000. "Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries." *Journal of Public Economics* 75(1):49-71.
- Macchiavello, Rocco. 2006. "Public Sector Motivation and Development Failures." CEPR Discussion Papers No. 5906.

#### D. Incentives

- \*Olken, Benjamin. 2007. "Monitoring Corruption: Evidence from a Field Experiment in Indonesia." *Journal of Political Economy* 115(2):200-249.
- Muralidharan, Karthik and Sundararaman, Venkatesh. 2009. "Teacher Performance Pay: Experimental Evidence from India." NBER Working Paper No. 15323.
- Rasul, Imran and Rogger, Daniel. 2013. "Management of Bureaucrats and Public Service Delivery: Evidence from the Nigerian Civil Service." STICERD - Public Economics Programme Discussion Papers No.20
- Wade, Robert. 1982 "The System of Administrative and Political Corruption: Canal Irrigation in South India." *The Journal of Development Studies* 18(3):287-328.

#### E. Contracting

- \* Kranton, Rachel, and Anand V. Swamy. 2008. "Contracts, Hold-Up, and Exports: Textiles and Opium in Colonial India." *American Economic Review* 98(3): 967-89.
- \* Djankov, La Porta, López-de-Silanes and Shleifer, Andrei. 2002. "Courts: The Lex Mundi project," CEPR Discussion Papers No. 3344 .
- Djankov, Hart, McLiesh and Shleifer, Andrei. 2008. "Debt Enforcement around the World," *Journal of Political Economy* 116(6):1105-1149.

## F. Capital

- \* Burnside, Craig, and David Dollar. 2000. "Aid, Policies, and Growth." *American Economic Review* 90(4): 847-868.
- \*Easterly, Levine and Roodman, David. 2004. "Aid, Policies, and Growth: Comment." *American Economic Review* 94(3): 774-780.
- \*Ahmed, Cohen and Werker, Eric. 2009. "How is Foreign Aid Spent?" *American Economics Journal of Macroeconomics* 1(2): 225-244.
- Rajan, Raghuram and Subramanian, Arvind. 2005. "What Undermines Aid's Impact on Growth?" NBER Working Paper No. 11657.
- Jayachandran, Seema and Kremer, Michael. 2006. "Odious Debt," *American Economic Review* 96(1):82-92.
- Kuziemko, Ilyana and Werker, Eric. 2006. "How Much is a Seat on the Security Council Worth?" *Journal of Political Economy* 114(5): 905-930.
- Rajan, Raghuram and Subramanian, Arvind. 2007. "Does Aid Affect Governance?" *American Economic Review* 97(2): 322-327.
- Faye, Michael and Niehaus, Paul. 2009. "Political Aid Cycles." *American Economic Review* 102(7): 3516-3530.

## G. Learning

- \* Majumdar, Sumon and Mukand, Sharun. 2004. "Policy Gambles." *American Economic Association* 94(4): 1207-1222.
- \*Buera, Francisco J., Alexander Monge-Naranjo, and Giorgio E. Primiceri. 2011. "Learning the wealth of nations." *Econometrica* 79(1): 1-45.
- Mukand, Sharun, and Dani Rodrik. 2005. "In search of the Holy Grail: Policy Convergence, Experimentation, and Economic Performance." *American Economic Review* 95(1):374-383.
- Oates, Wallace E. 1999. "An Essay on Fiscal Federalism," *American Economic Association* 37(3):1120-1149 Section 5.



## H. Market Structure

- \*Shleifer, Andrei and Vishny, Robert. 1993. "Corruption." *Quarterly Journal of Economics* 108(3):599-617.
- \*Barron, Patrick and Olken, Benjamin A. 2009. "The Simple Economics of Extortion: Evidence from Trucking in Aceh," *Journal of Political Economy* 117(3):417-452.
- Djankov, Simeon and Sequeira, Sandra. 2013. "Corruption and Firm Behavior: Evidence from South African Ports." London School of Economics and Political Science.

## I. Regulation

- \*Acemoglu, Daron and Verdier, Thierry. 2000. "The Choice Between Market Failures and Corruption." *American Economic Review* 90(1): 194-211.
- \*Duflo, Greenstone, Pande and Ryan, Nicholas. 2013. "Truth-telling by Third-party Auditors and the Response of Polluting Firms: Experimental Evidence from India."
- Banerjee, Abhijit. 1997. "A Theory of Misgovernance." *Quarterly Journal of Economics* 112(4): 1289-1332.
- Bertrand, Djankov, Hanna and Mullainathan, Sendhil. 2007. "Obtaining a Driver's License in India." *Quarterly Journal of Economics* 122(4):1639-1676.
- Atanassova, Bertrand, Mullainathan and Niehaus, Paul. 2013. "Targeting with Agents." *American Economic Journal* 5(1): 206-238.

## J. Politics

- \*Callen, Michael and Long, James. 2011. "Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan." Working Paper
- \*Fujiwara, Thomas. 2010. "Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil." Princeton University.
- Ferraz, Claudio and Finan, Frederico. 2008. "Exposing Corrupt Politicians: The Effects of Brazil's Publicity Released Audits on Electoral Outcomes." *Quarterly Journal of Economics* 123(2): 703-745.

- Cole, Healy and Werker, Eric. 2012. "Do Voters Demand Responsive Governments? Evidence from Indian Disaster Relief." *Journal of Development Economics* 97(2): 167-181.
- Banerjee, Green, McManus and Pande, Rohini. 2012. "Are Poor Voters Indifferent to Whether Elected Leaders are Criminal or Corrupt? A Vignette Experiment in Rural India." Harvard Kennedy School Publication.
- Finan, Frederico and Schechter, Laura. 2012. "Vote-Buying and Reciprocity," *Econometrica* 80(2):863-881.
- Larreguy, Horacio A. 2013. "Monitoring Political Brokers: Evidence form Clientelistic Networks in Mexico." MIT Economics