

**Economics 242  
Spring 2017  
TTh 5:00-6:20  
Sequoyah Hall 244**

**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 exercise. 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 usually be presented by the professor. For the final exercise, we ask you to write up, for each half of the course, what you feel are major unresolved questions: what do you think you should know about determinants of organizational effectiveness in developing countries, but did not learn?

## 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.
- Feng, Ying and Rauch, James E. 2015. "The Impact of Entrepreneurial Risk Aversion on Wages in General Equilibrium." NBER Working Paper No. 20992 (March).
- 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.
- \*Akcigit, Ufuk; Alp, Harun; and Peters, Michael. 2016. "Lack of Selection and Limits to Delegation: Firm Dynamics in Developing Countries." Sections 1-2 only.  
<http://www.ufukakcigit.com/research-1/>
- Cingano, Federico and Pinotti, Paolo. 2016. "Trust, Firm Organization, and the Pattern of Comparative Advantage." *Journal of International Economics* 100: 1-13.
- #### 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.
- Queiró, Francisco. 2016. "The Effect of Manager Education on Firm Growth."  
[http://scholar.harvard.edu/files/franciscoqueiro/files/man\\_ed\\_growth27-6-16.pdf](http://scholar.harvard.edu/files/franciscoqueiro/files/man_ed_growth27-6-16.pdf)
- \*Feng, Ying and Rickey, Lindsay. 2017. "Development and Selection Into Necessity Versus Opportunity Entrepreneurship." UCSD Working Paper.  
<https://www.dropbox.com/s/3m864ry7yxs66q0/development-selection-entrepreneurship.pdf?dl=0>

Calderon, Gabriela; Cunha, Jesse; and de Giorgi, Giacomo. 2013. "Business Literacy and Development: Evidence from a Randomized Trial in Rural Mexico." NBER Working Paper No. 19740 (December).

Guiso, Luigi; Pistaferri, Luigi; and Schivardi, Fabiano. 2015. "Learning Entrepreneurship From Other Entrepreneurs?" NBER Working Paper No. 21775 (December).

#### 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.

\*Chen-Zion, Ayal and Rauch, James E. 2017. "History Dependence in Networks of Close Relationships: Theory, and application to job referrals." UCSD Working Paper. [http://econweb.ucsd.edu/~jrauch/pdfs/HistDep\\_Paper\\_v6.pdf](http://econweb.ucsd.edu/~jrauch/pdfs/HistDep_Paper_v6.pdf)

Heath, Rachel. 2016. "Why Do Firms Hire Using Referrals? Evidence from Bangladeshi Garment Factories." [http://scholar.harvard.edu/files/franciscoqueiro/files/man\\_ed\\_growth27-6-16.pdf](http://scholar.harvard.edu/files/franciscoqueiro/files/man_ed_growth27-6-16.pdf)

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." NBER Working Paper No. 18459.

#### D. Incentives

\*Rauch, James E. 2014. "Employee Spinouts, Social Networks, and Family Firms." *Asia-Pacific Journal of Accounting and Economics* 21 (March): 4-17.

\*Atkin, David; Chaudhry, Azam; Chaudhry, Shamyla; Khandelwal, Amit; and Verhoogen, Eric. 2015. "Organizational Barriers to Technology Adoption: Evidence from Soccer-Ball Producers in Pakistan." NBER Working Paper No. 21417 (July).

#### 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.

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Antràs, Pol. 2016. *Global Production: Firms, Contracts, and Trade Structure* (Princeton: Princeton University Press), Chapter 4 only.

\*Ponticelli, Jacopo and Alencar, Leonardo S. 2016. "Court Enforcement and Firm Productivity: Evidence from a Bankruptcy Reform in Brazil." *Quarterly Journal of Economics* 131(3): 1365-1413.

Macchiavello, Rocco and Morjaria, Ameet. 2016. "Competition and Relational Contracts: Evidence from Rwanda's Coffee Mills." <https://www2.warwick.ac.uk/fac/soc/economics/staff/rmacchiavello/khawa.pdf>

Macchiavello, Rocco and Miquel-Florensa, Josepa. 2017. "Vertical Integration and Relational Contracts: Evidence from the Costa Rica Coffee Chain." [http://ibread.org/bread/system/files/bread\\_wpapers/503.pdf](http://ibread.org/bread/system/files/bread_wpapers/503.pdf)

Hansman, Christopher et al. 2017. "Vertical Integration, Supplier Behavior, and Quality Upgrading among Exporters." <https://sites.google.com/site/jonashjort/>

## 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.

\*Banerjee, Abhijit and Duflo, Esther. 2014. "Do Firms Want to Borrow More? Testing Credit Constraints Using a Directed Lending Program." *Review of Economic Studies* 81: 572-607.

McKenzie, David. 2016. "Identifying and Spurring High-Growth Entrepreneurship: Experimental Evidence from a Business Plan Competition." <https://sites.google.com/site/degrdmckenzie/working-papers>

\*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.

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.

#### 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.

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Poole, Jennifer. 2013. "Knowledge Spillovers from Multinational to Domestic Firms: Evidence From Worker Mobility." *Review of Economics and Statistics* 95(2): 393-406.

\*Cai, Jing and Szeidl, Adam. 2016. "Interfirm Relationships and Business Performance." National Bureau of Economic Research Working Paper No. 22951 (December).

Hardy, Morgan and McCasland, Jamie. 2016. "It Takes Two: Experimental Evidence on the Determinants of Technology Diffusion."

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#### H. Market Structure

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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; Pataconi, Andrea; and Zelner, Bennet. 2013. "The Nebulous Nature of the Firm: An Empirical Study of Corporate Group Structure in 16 Developed Countries." [\[https://faculty.fuqua.duke.edu/~sb135/bio/BPZ%20Final%20Names.pdf\]](https://faculty.fuqua.duke.edu/~sb135/bio/BPZ%20Final%20Names.pdf)

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. 2014. "Do Entry Regulations Deter Entrepreneurship and Job Creation? Evidence from Recent Reforms in Portugal." *Economic Journal* 124 (June): 805-832.

\*Besley, Timothy and Burgess, Robin. 2004. "Can Labor Regulation Hinder Economic Performance? Evidence from India." *Quarterly Journal of Economics* 119(1): 91-134.

#### 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.

\*Fisman, Raymond and Wang, Yongxiang. 2015. "The Mortality Cost of Political Connections." *Review of Economic Studies* 82(4): 1346-1382.

\*Diwan, Ishac et al. 2015. "Pyramid Capitalism: Political Connections, Regulation, and Firm Productivity in Egypt." <http://documents.worldbank.org/curated/en/818481468001476361/pdf/WPS7354.pdf>

## II. The Public Sector

### A. Organizational Capacity / Motivation

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

\*Muralidharan, Karthik and Niehaus, Paul and Sukhtankar, Sandip. 2016~~5~~ "Building State Capacity: Evidence from Biometric Smartcards in India." ~~Mimeo~~*American Economic Review* 106(10): 2895-2929, ~~UCSD~~.

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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.

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### 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

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### C. Staffing

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

\*Weaver, Jeffrey. 2017. "Jobs for Sale: Corruption and Misallocation in Hiring." Mimeo, Yale University.

\*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 .

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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.

\*Banerjee, Duflo, Glennerster 2008 "Putting a band-aid on a corpse: incentives for nurses in the Indian public health care system."

Muralidharan, Karthik and Sundararaman, Venkatesh. 2011. "Teacher Performance Pay: Experimental Evidence from India." *Journal of Political Economy* 119 (1): 39-77.



Rasul, Imran and Rogger, Daniel. 2015. "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

\* Djankov, La Porta, López-de-Silanes and Shleifer, Andrei. 2002. "Courts: The Lex Mundi project," CEPR Discussion Papers No. 3344 .

\*Faupel-Lewis, Sean and Neggers, Yusuf and Olken, Ben and Pande, Rohini. 2015. "Can electronic procurement improve infrastructure provision? Evidence from public works in India and Indonesia." Mimeo, MIT.

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#### F. Capital

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\*Khan, Adnan and Khwaja, Asim and Olken, Ben. 2015. "Tax Farming Redux: Experimental Evidence on Performance Pay for Tax Collectors." *Quarterly Journal of Economics*

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Rajan, Raghuram and Subramanian, Arvind. 2005. "What Undermines Aid's Impact on Growth?" NBER Working Paper No. 11657.

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#### G. Learning

\* Majumdar, Sumon and Mukand, Sharun. 2004. "Policy Gambles." *American Economic Association* 94(4): 1207-1222.

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#### 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.

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#### I. Regulation

\*Acemoglu, Daron and Verdier, Thierry. 2000. "The Choice Between Market Failures and Corruption." *American Economic Review* 90(1): 194-211.

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Atanassova, Bertrand, Mullainathan and Niehaus, Paul. 2013. "Targeting with Agents." *American Economic Journal* 5(1): 206-238.

#### J. Politics

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\*Fujiwara, Thomas. 2015 "Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil." *Econometrica* 83(2): 423-464.

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