

## **ECON 242 Economic Development Winter 2008**

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“The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else.” (Robert Lucas, “On the Mechanics of Economic Development”)

This course offers an introduction to recent research macroeconomic issues of economic development. By macroeconomics, we mean broad ideas rather than monetary policy or growth. As is always the case, there are so many topics, and so little time. The syllabus is designed to include a wide variety of research methods, often applied to the same question. Required readings for weeks 8-10 will be announced at a later date.

Grades will be determined by performance on the following assignments (weight in grade in parentheses):

- 1) Referee reports due January 22 and March 3. Both referee reports should be on papers which are not yet published. At least one must be on a job market paper from this year or last. Please get my approval for the papers you select. (15% each)
- 2) In-class presentation of one of the articles covered in weeks 8-10. (10%)
- 3) Research prospectus. (30%) One of your goals for the course should be to identify a question worthy of further examination. Where is there a hole in the literature? Where is there uncertainty and/or conflicting predictions from theory? For this assignment, due March 12, you should write down such a question in 6-8 pages, focusing on the current state of the literature related to the topic.
- 4) Final exam, take home. (30%)

### **READINGS:**

#### **Introduction**

Week 1 (Jan 6-8):

\*Mookherjee, (1/2\*)Bardhan, Basu, \*Banerjee, and Kanber, “New Directions in Development Economics: Theory or Empirics?,” symposium in *Economic and Political Weekly*, August 2005. ([Link](#))

*"I would ask you to look at economic reform as a passage over a ravine: you cannot do it by taking several little steps; only one giant leap will get you across."* Warren Christopher, Hanoi, August 6, 1995

\*Murphy, Kevin, Andrei Shleifer and Robert Vishny (1989), "Industrialization and the Big Push", *Journal of Political Economy* ([Link](#))

\*Michael Kremer. 1993. "The O-Ring Theory of Economic Development." *Quarterly Journal of Economics* v. 108 no. 3, pp. 551-75. ([Link](#))

## **I. Institutions**

Week 2 (Jan 13-15)

### *Institutions and Growth*

\*Lucas, Robert E, Jr., "On the Mechanics of Economic Development" (sections 1-3), *Journal of Monetary Economics*, 22, pp. 3-42. ([Link](#))

Robert E. Hall and Charles E. Jones. 1999 "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, v. 114, pp. 83-116. ([Link](#))

\*Caselli, Francesco (2005), "Accounting for Cross-Country Income Differences," *Handbook of Economic Growth* ([Link](#))

Mankiw, N Gregory, David Romer and David N. Weil, 1992, "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, 107, pp. 407-37. ([Link](#))

### *Institutions and History*

\*Avner Greif. 1993. "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition." *American Economic Review*, 83(3), pp. 525-548. ([Link](#))

\*Botticini and Ekstein, "From Farmers to Merchants, Conversions and Diaspora: Human Capital and Jewish History," *Journal of the European Economic Association*, 5(5) pp. 885-926, September 2007. ([Link](#))

\*Clark, Gregory, 2007, "The Puzzle of the Industrial Revolution," Chapter 11 in *A Farewell to Alms*. [e-reserves](#)

Week 3 (Jan 20-22)

\*Acemoglu, Daron, Simon Johnson, and James Robinson (2001), "The Colonial Origins of Comparative Development: An Empirical Investigation", *American Economic Review*, 91, 1369-1401 ([Link](#))

\*Engerman and Sokoloff, 2000, "History Lessons: Institutions, Factor Endowments and Paths of Development in the New World, *Journal of Economic Perspectives*, 14(3), pp. 217-232 ([Link](#))

\*Acemoglu, Daron and Simon Johnson, 2005, "Unbundling Institutions," *Journal of Political Economy*, 113(5), pp. 949-995. ([Link](#))

Albouy, David, 2008, "The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data", NBER Working paper 14130. ([Link](#))

Glaeser, Edward, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2004, "Do Institutions Cause Growth?" *Journal of Economic Growth*, 9, pp. 271-303. ([Link](#))

Woodruff, Christopher (2006) "Measuring Institutions," in Rose-Ackerman, editor, *International Handbook on the Economics of Corruption*, Edward Elgar Publishers.

### *Property rights*

- Timothy Besley. 1995. "Property Rights and Investment Incentives: Theory and Evidence." *Journal of Political Economy*, 103(5), pp 903-957. ([Link](#))
- \*Goldstein, Marcus and Christopher Udry, 2008, "The Profits of Power: Land Rights and Agricultural Investment in Ghana," *Journal of Political Economy*, forthcoming. ([Link](#))
- \*Di Tella, Rafael, Sebastián Galiani and Ernesto Schargrodsky, 2007, "The Formation of Beliefs: Evidence from the Allocation of Land Titles to Squatters," *Quarterly Journal of Economics*, Vol. 122 (1), pp. 209-241. ([Link](#))

### Week 4 (Jan 27-29)

#### *Corruption*

- \*Johnson, Simon, John McMillan and Christopher Woodruff. "Property Rights and Finance," *American Economic Review*, December 2002. ([Link](#))
- \*Ben Olken, "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," *Journal of Political Economy* 115 (2), pp. 200-249, April 2007. ([Link](#))
- \*Raymond Fisman. 2001. "Estimating the Value of Political Connections." *American Economic Review*, 91(4), pp. 1095-1102. ([Link](#))
- Mauro, Paolo, 1995, "Corruption and Growth," *Quarterly Journal of Economics* 110 (3), 681-712. ([Link](#))
- Pranab Bardhan. 1997. "Corruption and Development: A Review of Issues." *Journal of Economic Literature*, 35(3), pp. 1320-1346. ([Link](#))
- JMP: Tran, Anh, 2008, "Can Procurement Auctions Reduce Corruption? Evidence from the Internal Records of a Bribe-Paying Firm." ([Link](#))

#### *Finance*

- \*Lucas, Robert E., 1990, "Why Doesn't Capital Flow from Rich to Poor Countries?," *American Economic Review*, 80(2), pp 92-96. ([Link](#))
- \*Caselli, Francesco and James Feyrer, 2007, "The Marginal Product of Capital," *Quarterly Journal of Economics*, Vol. 122(2), pp.535-568. ([Link](#))
- \*Rajan, R. and Luigi Zingales, 1998, "Financial Dependence and Growth," *American Economic Review*, 88 (3), 559-586. ([Link](#))
- King, Robert G. and Ross Levine, 1993, "Finance and Growth: Schumpeter Might be Right," *Quarterly Journal of Economics*, 108(3), pp. 717-737. ([Link](#))
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, R. Vishny, (1998), "Law and Finance," *Journal of Political Economy*, 106(5), 1113-1155. ([Link](#))

## **II. Firms**

### Week 5 (Feb 3-5)

- \*Ghatak, Maitreesh and Neville Nien-Huei Jiang (2002), "A Simple Model of Inequality, Occupational Choice and Development," *Journal of Development Economics*, 69(1), pp. 205-226. ([Link](#))

- \*Duflo, Esther and Abhijit Banerjee, 2003, "Inequality and growth, What can the Data Say?," *Journal of Economic Growth*, 8(3), pp. 267-299. ([Link](#))
- Abhijit Banerjee and Andrew Newman. 1993. "Occupational Choice and the Process of Development," *Journal of Political Economy* 101(1), pp. 274-298. ([Link](#))
- Aghion, P. and P. Bolton (1997), "A Theory of Trickle-Down Growth and Development," *Review of Economic Studies*, 64, 151-172. ([Link](#))
- \*Banerjee, Abhijit, Dilip Mookherjee, Kaivan Munshi and Debraj Ray (2001). "Inequality, control rights, and rent seeking: Sugar cooperatives in Maharashtra," *Journal of Political Economy*, 109(1), pp. 138-190. ([Link](#))
- Besley, Tim and Robin Burgess, 2000, Land Reform, Poverty Reduction and Growth: Evidence from India," *Quarterly Journal of Economics*, 115(2), pp. 389-430 ([Link](#))
- \*Banerjee, A., P. Gertler and M. Ghatak. 2002. "Empowerment and Efficiency: Tenancy Reform in West Bengal," *Journal of Political Economy*, 110(2), pp. 238-280. ([Link](#))

#### Week 6 (Feb 10-12)

- \*Paulson, Anna, Robert Townsend, and Alexander K. Karaivanov, "Distinguishing Limited Liability from Moral Hazard in a Model of Entrepreneurship" *Journal of Political Economy*, 114(1), pp. 100-144. ([Link](#))
- Paulson, Anna and Robert Townsend, 2004, "Entrepreneurship and Financial Constraints in Thailand," *Journal of Corporate Finance*, 10(2), pp. 229-262. ([Link](#))
- Lucas, R. E., "On the Size Distribution of Firms," *Bell Journal of Economics* 9 (1978), 508-523. ([Link](#))

#### *Firms and Financial Constraints*

- \*De Mel, Suresh, David McKenzie and Christopher Woodruff, 2008, "Returns to Capital in Microenterprises: Evidence from a Field Experiment," *Quarterly Journal of Economics*, 123(4), pp. 1329-1372. ([Link](#))
- \*Banerjee and Duflo, "Do Firms want to Borrow more?: Testing Credit Constraints Using a Directed Lending Program," mimeo, MIT. ([Link](#))
- \*Udry, Christopher and Santosh Anagol, 2006, "The Return to Capital in Ghana," *American Economic Review*, 96(2) ([Link](#))
- McKenzie, David and Christopher Woodruff, 2006, "Do Entry Costs Provide an Empirical Basis for Poverty Traps? Evidence from Mexican Microenterprises," *Economic Development and Cultural Change*, 55, pp. 3-42 ([Link to WP](#))
- Burgess, Robin And Rohini Pande, 2005, "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment," *American Economic Review*, 95(3), pp. 780-795. ([Link](#))
- JMP: Carvalho, Leandro (2008), "Poverty and Time Preferences" ([Link](#))

Week 7 (Feb 17; No class Feb 19)

*Firm Efficiency*

- \*Bloom, Nicholas and John Van Reenen, 2007, "Measuring and Explaining Management Practices Across Firms and Countries," *Quarterly Journal of Economics*, November 2007. ([Link](#))
- \*Hsieh, Chang-Tai and Peter Klenow, 2007, "Misallocation and Manufacturing TFP in China and India," NBER Working Paper 13290. ([Link](#))
- Foster, Lucia, John Haltiwanger and Chad Syverson, 2008, "Reallocation, Firm Turnover, and Efficiency: Selection on Productivity or Profitability," *American Economic Review*, 98(1), pp. 394-425. ([Link](#))

Week 8 (Feb 24-26)

*Contracting and networks*

- Dilip Mookherjee, 1999, "Contractual Constraints on Firm Performance in Developing Countries." Unpub. Paper, Boston University. ([Link](#))
- Abhijit Banerjee and Kaivan Munshi, 2004, "How Efficiently is Capital Allocated? Evidence from the Knitted Garment Industry in Tirupur." *Review of Economic Studies*, 71(1), pp. 19-42. ([Link](#))
- McMillan, John and Christopher Woodruff, 1999, "Interfirm Relationships and Informal Credit in Vietnam," *Quarterly Journal of Economics*, 114: 1285-1320. ([Link](#))
- Banerjee, Abhijit and Esther Duflo, 2000, "Reputation Effects and the Limits of Contracting: A Study of the Indian Software Industry," *Quarterly Journal of Economics*, 115(3), pp. 989-1017 ([Link](#))
- Tirole, Jean, 1996, "A Theory of Collective Reputations," *Review of Economic Studies*, 63(1), pp. 1-22. ([Link](#))
- Kranton, Rachael, 1996, "Reciprocal Exchange: A Self-Sustaining System," *American Economic Review* 86(4), pp. 830-51. ([Link](#))
- \*Khwaja, Asim and Atif Mian, 2005. "Do Lenders Favor Politically Connected Firms? Rent provision in an Emerging Financial Market," *Quarterly Journal of Economics*, 120(4), pp. . ([Link](#))
- \*Khwaja, Asim, Atif Mian and Abid Qamar, 2008, "The Value of Business Networks," mimeo Harvard. ([Link](#))

*JMP*: Sakhtankar, Sandip (2008), "Sweetening the Deal? Political Connections and Sugar Mills in India" ([Link](#))

*JMP*: Niehaus, Paul (2008), "Filtered Social Learning, with an Application to Productivity Growth" ([Link](#))

Week 9 (Mar 3-5)

*Regulation*

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

- \*Kaplan, David, Eduardo Piedra, and Enrique Seira, 2007, "Entry Regulation and Business Start-ups: Evidence from Mexico," World Bank Policy Research Working Paper 4322. ([Link](#))
- \*Bruhn, Miraim, 2008, "License to Sell: The Effect of Business Registration Reform of Entrepreneurial Activity in Mexico," World Bank Policy Research Working Paper 4538. ([Link](#)).
- Bertrand, Marianne and Francis Kramarz, 2002, "Does Entry regulation Hinder Job Creation? Evidence from the French Retail Industry," *Quarterly Journal of Economics*, 117(4), pp 1369-1413. ([Link](#))
- Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2002, "The Regulation of Entry," *Quarterly Journal of Economics*, 117(1), pp. 1-37. ([Link](#))
- Rauch, Jim, 1991, "Modeling the Informal Sector Formally" *Journal of Development Economics*, 35(1), pp. 33-47. ([Link](#))

### III. Policy Implementation

- Frankel, Jeffrey and David Romer, 1999 "Does Trade Cause Growth?" *American Economic Review*, Vol 89(3), pp. 379-399. ([Link](#))
- Verhoogan, Eric, 2008, "Trade, Quality Upgrading, and Wage Inequality in the Mexican Manufacturing Sector," *Quarterly Journal of Economics*, Vol 123(2), pp. 489-530. ([Link](#))
- JMP*: Donaldson, David, "Railroads of the Raj: Estimating the Impact of Transportation Infrastructure" ([Link](#))

#### Week 10 (Mar 10-12)

- Besley, Tim and Robin Burgess "The Political Economy of Government Responsiveness: Theory and Evidence from India," *The Quarterly Journal of Economics*, vol. 117(4), pages 1415-1451. ([Link](#))
- Eisenstein, Thomas and David Stromberg, 2007, "New Droughts, News Floods, An U.S. Disaster Relief," *Quarterly Journal of Economics*, 122(2), pp. 693-728. ([Link](#))

#### *Ethnic diversity*

- Miguel, Edward and Mary Kay Gugerty, 2005, "Ethnic diversity, social sanctions, and public goods in Kenya," *Journal of Public Economics*, 89(11), pp. 2325-2368. ([Link](#))
- Alesina, Alberto and Eliana La Ferrara, 2005, "Ethnic Diversity and Economic Performance," *Journal of Economic Literature*, 43(3), pp. 762-800. ([Link](#))
- JMP*: Dube, Oeindrila and Juan Vargas (2008), "Commodity Price Shocks and Civil Conflict: Evidence from Colombia" ([Link](#))
- JMP*: Weese, Eric (2008), "Political Mergers as Coalition Formation: Evidence from Japanese Municipal Amalgamations" ([Link](#))