

14.74 Foundations of Development Policy

Syllabus

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• Administration

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Thursdays: 12-1 pm

-Lecture: M, W 1-2:30pm, E51-372

-Recitation: F 1-2pm, Rm E56-270

- Course Web site: <http://web.mit.edu/14.74/www/>

• Course Description

In this course, we will study the different facets of human development: education, health, gender, the family, land relations, risk, informal and formal norms and institutions. While studying each of these topics, we will ask: What determines the decisions of poor households in developing countries? What constraints are they subject to? Is there a scope for policy (by government, international organizations, or NGOs)? What policies have been tried out? Have they been successful?

• Prerequisites

This is an empirical class. For each topic, we will study several concrete examples chosen from around the world. A statistics course is a prerequisite. Econometrics is not a prerequisite for

this class, but you will be expected to be willing to familiarize yourself with basic econometric methods. The relevant material will be covered in class and occasionally in the recitation.

- **Requirements**

There will be about one problem set every 2 or 3 lectures [for a total of 7 problem sets], due a week after it is handed out. Each problem set will contain one empirical exercise and one additional exercise. In the first few recitations, you will learn how to use Stata software to do these exercises. Problem sets for this class are very important, and somewhat time-consuming.

There will be a final exam during exam week, and a mid-term exam on **Monday, March 28th**. Problem sets will count toward 40% of the final grade for the course. The mid-term will count for 25%. The final exam will count for the remaining 35%. Class participation is expected, and will be taken into account in marginal cases (i.e. in the difficult decision between B+ and A-).

- **Text and readings**

The text for this class is Debraj Ray's *Development Economics*. However, we will rely mostly on articles. Readings will be available on the website. There are many readings for this class. You are not expected to read every single article in detail, but you are expected to understand the methods used by the authors to reach their conclusions. Required readings are starred. Lecture notes will be distributed at each lecture. They are *not* a substitute for attending the class, but rather a study aide.

- **Special Lecture Days**

There is no lecture on Monday, **February 21th**, an MIT holiday. Lecture will occur on Tuesday, **February 22th** at the normal time and place. There is no lecture on Monday, **April 17th**, an MIT holiday.

- **Syllabus**

1. 2/2/04: Introduction: the vicious circle of poverty

- (a) World Development Report

(b) * A Quiet Violence: View from a Bangladesh Village Ch: 12, The Trials of a Poor Peasant Family: Hartmann (1983)

2. 2/7, 2/9: Nutrition and productivity: interrelationships

(a) Theoretical model * Ray, pp. 272-279; Ray, pp. 489-504

Poor nutrition leads to low productivity. Low productivity leads to unemployment and low incomes. Low income leads to poor nutrition. This theoretical model can be applied to education, health, nutrition, gender and inter-generational discrimination, and many other issues.

(b) Empirical evidence

i. From income to nutrition:

A. Income \rightarrow Nutrition: A study of Maharashtra, India. Subramanian and Deaton (1996)

B. Monetary transfer to the elderly can lead to better nutrition for children. A study of old age pension in South Africa: Duflo (2003)

ii. From nutrition to income:

A. * Ray, chapter 8. In particular, sections 8.3 and 8.4.

B. * Thomas and et al. (2004)

3. 2/14, 2/16, 2/22: Health

(a) *Health Status in Rajasthan: Banerjee and Duflo (2003) A study (and a movie) that looks at various aspects of health delivery and health status

(Assign Homework #7)

4. 2/23, 2/28, 3/2: Education (*Homework #2 assigned 2/23rd*)

(a) * The Probe Report on Basic Education in India (1999)

An overview of the problems: Educational choice in India: why are the levels of

education so low? Do parents care about education? Can they afford it? What is education good for?

- (b) Improving access: An example of an effective program of school construction in Indonesia: Duflo (2001)
- (c) Holding teachers accountable: Duflo and Hanna (2005); Kremer and Glewwe (2003)
- (d) An example that it is possible to improve the quality of education: Banerjee and et al. (2004)

5. 3/7: The Economics of Child Labor:

- (a) Why does child labor exist? What policy can help to suppress it? Basu and Van (1998)
- (b) Income Effects on Child Labor and School Enrollment in Brazil: Edmonds (2004); Beegle and Gatti (2003)

6. 3/9: Gender discrimination (*Homework #3 assigned 3/9th*)

- (a) * Evidence of gender discrimination in India: Dreze and Sen (1995)
- (b) Gender discrimination can arise due to economic reasons: Ray, pp.279-288
- (c) How can we prove that there is gender discrimination in everyday life? Deaton (1997)
- (d) Consumption Smoothing and Excess Female Mortality in Rural India: Rose (1999)
- (e) The “marriage market”: Rao (1993)
- (f) Discrimination and the value of girls: Qian (2005)

7. 3/14, 3/16: Bargaining within families

- (a) Income is not spent in the same way by women and by men: Evidence from Brazil (Thomas (1990)), the United Kingdom Child Benefit allowance (Lundberg, Pollak and Wales (1996)), a pension program in South Africa (Duflo (2003)).

- (b) * Competition within the family is not limited to sharing the resources. It leads to lower productivity and lower welfare for all members in the family: Udry (1996); Duflo and Udry (2004)

3/21, 3/23: Spring Break

3/28th: **Midterm**

8. 3/30: Savings

- (a) * Do poor people save in good times in anticipation of bad times? Savings by rice farmers in Thailand: Paxson (1992)
- (b) Have poor people access to savings instruments: A micro-savings experiment in Mexico: Aportela (1998)

9. 4/4, 4/6: Land (*Homework #4 assigned 4/4th*)

- (a) Theoretical background: Ray, chapter 12
- (b) * Why land reform? Banerjee (1999)
- (c) A successful limited land reform in India: Banerjee and Ghatak (2002)

10. 4/11, 4/13: Insurance (*Homework #5 assigned 4/11th*)

Agricultural incomes fluctuate enormously during the year and from year to year. Do consumption and investments fluctuate as well, or are households protected from these fluctuations?

- (a) * Ray, chapter 15.
- (b) Insurance is only partial: the consumption of household members in Cote d'Ivoire is linked to their income: Deaton (1997), pp 372-383.
- (c) In bad times are children taken out of school, and given less to eat? An example from Cote d'Ivoire: Jensen (2000)

(d) * In West Africa, villagers lend to each other and achieve a certain degree of insurance:
Udry (1990)

(e) Mutual insurance in the village does not happen in the void. It depends on the
strength of local institutions: Townsend (1995).

11. 4/18, 4/20, 4/25: Credit markets (*Homework #6 assigned 4/20st*)

Why does formal credit fail to reach the poor? Why has targeted lending organized by
the government not worked? Why do the poor borrow from local money lenders at very
high rates?

(a) Theoretical background: Ray, chapter 14

(b) * Why do informal money lenders charge interest rates that are so high? Aleem
(1990)

(c) An innovative form of lending: micro-credit: Morduch (1999)

12. 4/27, 5/2, 5/4: Formal and Informal Institutions (*Homework #7 assigned 4/27th*)

(a) Social networks

No policy happens in the void.... What role do informal institutions and norms play?

i. Norms helped to sustain long distance trade among Maghribi traders: Greif
(1993)

ii. However, successful informal institution can be an obstacle to the development
of formal institutions: Greif (1994)

iii. Social norms as an obstacle to the demographic transition: Munshi (2000)

(b) Formal Institutions

i. Institutions differ widely around the world: La Porta, de Silanes, Shleifer and
Vishny (1998)

- ii. * Good institutions are important for economic performance: aggregate approach: Acemoglu, Johnson and Robinson (2001)
- iii. Historical approach: In India, colonial history continues to impact today's outcomes Banerjee and Iyer (2002); Iyer (2003)
- iv. The mechanics of why institutions matter. A poor institutional environment may makes business difficult. A study of contracting and reputation in the Indian Software industry: Banerjee and Duflo (2000)

13. 5/9, 5/11: Limits to social policy: corruption

- (a) Why is corruption costly? Shleifer and Vishny (1993)
- (b) Why is corruption illegal? Why does corruption and red tape go hand in hand? Banerjee (1997)
- (c) * Corruption and the diversion of social policies. The example of canal irrigation in South India: Wade (1982)

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