

### **Public Policy 534: Economics of Development**

Class meetings: Tu/Th, 8:30-10:00 a.m., Weill 1110  
Meetings with instructor: Held in Weill 3316. Make appointments online: go to my website ([www.umich.edu/~deanyang](http://www.umich.edu/~deanyang)) and click on "Contact"

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#### **Course description**

What accounts for the vast disparities in income levels and economic growth across the world? What are the most important drivers of economic growth, and what policies have the greatest potential for reducing poverty and raising human well-being in the developing world? This course covers the following topics: the broad patterns of development across the world; the theory of economic growth; geography; institutions; economic policy; global public goods; foreign aid; evaluation of social programs; education; health; disasters and risk; microfinance; and international migration.

#### **Prerequisites**

Previous or concurrent coursework in 1) microeconomics and 2) statistics or econometrics. In particular, students must be able to understand and interpret basic regression analyses. For Ford School students, Program Evaluation (PP639) or Econometrics (PP571) will provide the necessary background in regression analysis.

#### **Requirements**

You should keep up to date with the readings and participate in class. You may find it helpful to form study groups to cover the class readings in advance of classes. On the reading list, required readings are indicated with stars (\*\* is highest priority, \* next priority). Optional readings have no stars and are included for those of you with further interest in the topic.

**Class participation** will count for 30% of the semester grade. I will expect each student to post comments or questions on the relevant readings on Ctools *prior* to the start of each discussion class (not classes devoted to student presentations).<sup>1</sup> The class will be mainly discussion-oriented, and participation in the discussion will be an important component of your class grade.

An **8-10 page paper and presentation** on either a development organization or development innovation (for details, see the assignment descriptions on Ctools) will count for 40% of the semester grade. Your exact presentation date and paper due date will depend on your topic (see class schedule). For Tuesday presentations, the paper will be due the previous Friday at 5 p.m. For Thursday presentations, the paper will be due the previous Monday at 5 p.m.

The **final examination** will count for 30% of the semester grade, and will cover class readings and discussion. The final exam will be held on **Wednesday, Dec. 17, from 8 - 10 am.**

#### **Paper submissions**

Papers should be written in 12-point Times New Roman font, with 1-inch margins on all sides, double-spaced. Footnotes should be in smaller (10-point) font, single-spaced, and at the bottom of the page (not collected at the end). Please do not exceed the maximum page requirement (I will stop reading at the maximum number of pages). Include a separate cover page with the paper title, your name, email address, etc. Include page numbers at the bottom of each page, starting from the first page of main text

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<sup>1</sup> Please post comments in the Discussion section of the Ctools class site, in the folder with the appropriate class date. The folders are titled "Comments on readings MM/DD" where MM is the month and DD is the date (e.g., the folder where on Sep. 4 comments should be posted is "Comments on readings 09/04"). I will read comments that are posted prior to 8 a.m. of the class date.

(i.e., the page after the title page). Tables and figures (if any) should be placed at the end. The title page, tables, and figures are not included in the page count.

Papers must be submitted in both paper copy and electronic copy. Hard copies should be dropped off with my assistant, Thaya Rowe (Weill 3310). Electronic copies should be sent to me by email. Both paper and electronic versions must be submitted by the deadline.

Papers submitted after the deadline will be considered late. Papers submitted from 1-24 hours late will be penalized one full letter grade (e.g., from A- to B-, from B to C, etc.) I will not accept papers that are more than 24 hours late (such papers will receive an “F”, or 0 numerical score in the overall grade calculation), except in the cases of documented serious illness or family emergency.

Please don’t hesitate to use the Ford School’s excellent and friendly Writing Tutors as you craft your papers. See the following site for appointments: <http://fordschool.umich.edu/writing-center/>

### **Ctools resources**

We will actively use Ctools in this class, in particular the following features:

- Resources: many readings, plus lecture notes (which I will aim to post before each class, but not necessarily much before)
- Announcements
- Discussion (for comments on readings)
- Syllabus
- Wiki (to help students coordinate and avoid writing papers on the same topic)

### **Use of computers and handheld devices in class**

You may use laptops or tablets for class-related purposes, such as note-taking or for accessing the class Ctools site. Please do not use your devices for non-class purposes such as email. Cellphones (smart or dumb) may not be used in class. If you must make or take a call or communicate electronically, please step outside the classroom. Violators of this policy will lose brownie-points.

### **Disabilities**

If you believe you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of this course may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat any information you provide as private and confidential.

### **Course materials**

#### **Required texts**

Banerjee, Abhijit and Esther Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. Public Affairs, 2011.

Collins, Daryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven, *Portfolios of the Poor: How the World’s Poor Live on \$2 a Day*. Princeton University Press, 2009.

#### **Recommended texts**

Armendariz, Beatriz and Jonathan Morduch, *The Economics of Microfinance*, MIT Press, 2005.

Diamond, Jared, *Guns, Germs, and Steel*. Norton, 1999.

Easterly, William, *The Elusive Quest for Growth*. MIT Press, 2001.

Easterly, William, *The White Man’s Burden*. Penguin, 2006.

Sachs, Jeffrey, *The End of Poverty*. Penguin, 2005.

Sen, Amartya, *Development as Freedom*. Knopf, 1999.

### Access to readings

Many readings are in one of the two required texts, *Poor Economics* and *Portfolios of the Poor*. These books have been ordered and should be available at bookstores serving the University, such as Ulrich's, Michigan Book and Supply, and Barnes and Noble/Michigan Union Bookstore.

Other readings available electronically via either: 1) the Ctools site for the class, or 2) at the web addresses given on the reading list below. For some articles, a policy-oriented summary in the form of a "JPAL brief" is available, and I have provided a link to that resource.

### **Reading List**

#### **Economic Development: The Facts and the Puzzles (1 class)**

\*\*Sachs, *The End of Poverty*, Ch. 1

\*\*World Bank, *World Development Report 2014: Risk and Opportunity*. Washington, DC: 2014.  
Tables 1-2, p. 296-299.

(And skim other tables and text according to your interests.)

<http://wdr2011.worldbank.org/fulltext>

Amartya Sen, "The Concept of Development," in Chenery and Srinivasan, eds., *Handbook of Development Economics*, Vol. 1, Elsevier Science Publishers, 1988.

Kaushik Basu, "On the Goals of Development," in G.M. Meier and J.E. Stiglitz (2001), Frontiers of development economics : the future in perspective, p. 61-102 (including comments by Paul Streeten and Michael Lipton).

William Easterly, "Life During Growth," *Journal of Economic Growth*, 4(3), September 1999.

Angus Maddison, *The World Economy: A Millennial Perspective*, OECD Development Centre Studies, 2001, ch. 1-2 and appendix A.

#### **The Economic Lives of the Poor (1 class)**

\*\*Collins, Morduch, Rutherford, and Ruthven, *Portfolios of the Poor*, Ch. 1-2.

\*\*Banerjee, A., Duflo, E. (2007). "The Economic Lives of the Poor." *The Journal of Economic Perspectives*, 21(1), pp. 141-167.

#### **Economic Growth (1 class)**

\*\*Sachs, *The End of Poverty*, Ch. 2-3

\*\*Easterly, *The Elusive Quest for Growth*, Ch. 2-3

\*Ray, Debraj, *Development Economics*, Princeton University Press, 1998.  
Ch. 3, "Economic Growth".

Pritchett, Lant, "Divergence, Big Time," *Journal of Economic Perspectives*, Summer 1997.

## **Geography (1 class)**

\*\*David Bloom and Jeffrey Sachs, “Geography, Demography, and Economic Growth in Africa,” *Brookings Papers on Economic Activity*, 1998:2.

\*Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. Fontana Press: London, 1987.

“The European Miracle”, in Ch. 1, pp. 20-38 (page numbers may vary).

Diamond, Jared, *Guns, Germs, and Steel*, Prologue, Ch. 1, Ch. 4-10.

David S. Landes, “Why Europe and the West? Why not China?” *Journal of Economic Perspectives*, Vol. 20, No. 2, Spring 2006, pp. 3-22.

## **Institutions (2 classes)**

\*\*Acemoglu, Johnson, and James A. Robinson, “Institutions as a Fundamental Cause of Long-Run Growth,” Chapter 6 of *Handbook of Economic Growth*, eds. Philippe Aghion and Steven Durlauf, Elsevier, 2005, pp. 385-472.

\*Rodrik, Dani, “Institutions for High-Quality Growth,” Ch. 5 in *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*, Princeton University Press, 2007, pp. 153-183.

\*Olken, Benjamin, “Monitoring Corruption: Evidence from a Field Experiment in Indonesia,” *Journal of Political Economy* 115 (2), pp. 200-249, April 2007.

JPAL brief version:

[http://www.povertyactionlab.org/sites/default/files/publications/70\\_Policy\\_Briefcase\\_5.pdf](http://www.povertyactionlab.org/sites/default/files/publications/70_Policy_Briefcase_5.pdf)

Acemoglu, Daron, Simon Johnson, and James A. Robinson, “The Colonial Origins of Comparative Development: An Empirical Investigation,” *The American Economic Review*, Vol. 91, No. 5, Dec. 2001, pp. 1369-1401.

Acemoglu, Daron, Simon Johnson, and James A. Robinson, “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution,” *Quarterly Journal of Economics*, Vol. 117, No. 4, November 2002, pp. 1231-1294.

Banerjee and Duflo, *Poor Economics*, Ch. 10.

Ferraz, Claudio and Frederico Finan, “Exposing Corrupt Politicians: The Effects of Brazil’s Publicly Released Audits on Electoral Outcomes.” *Quarterly Journal of Economics*, 2008, 123(2): 703-745.

JPAL brief version:

<http://www.povertyactionlab.org/publication/exposing-corrupt-politicians>

Klitgaard, Robert, *Controlling Corruption*, Berkeley: University of California Press, 1988.

Yang, Dean, “Integrity for Hire: An Analysis of a Widespread Program for Combating Customs Corruption,” *Journal of Law and Economics*, Vol. 51, No. 1, February 2008, pp. 25-57.

Yang, Dean, "Can Enforcement Backfire? Crime Displacement in the Context of Customs Reform in the Philippines," *Review of Economics and Statistics*, Vol. 90, No. 1, February 2008, pp. 1-14.

### **Economic policy (1 class)**

\*\*Rodrik, Dani, "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's 'Economic Growth in the 1990s: Learning from a Decade of Reform'," *Journal of Economic Literature*, 44, December 2006, 973-87.

\*\*Hausmann, Ricardo, Dani Rodrik, and Andres Velasco, "Growth Diagnostics", in J. Stiglitz and N. Serra, eds., *The Washington Consensus Reconsidered: Towards a New Global Governance*, Oxford University Press, New York, 2008.

\*Hausmann, Ricardo and Dani Rodrik, "Self-Discovery in a Development Strategy for El Salvador," *Economia*, Vol. 6(1), Fall 2005.

John Williamson, "From Reform Agenda to Damaged Brand Name," *Finance and Development*, September 2003.

John Williamson, *What Washington Means by Policy Reform*, Institute for International Economics, November 2002 update.

Ricardo Hausmann and Dani Rodrik, "Economic Development as Self-Discovery," *Journal of Development Economics*, Vol. 72 (2), December 2003, pp. 603-633.

Dani Rodrik, "Getting Interventions Right: How South Korea and Taiwan Grew Rich," *Economic Policy*, April 1995.

### **Foreign aid (1 class)**

\*\*Jeffrey Sachs, *The End of Poverty*, Ch. 15.

\*\*William Easterly, "The Big Push Déjà Vu: A Review of Jeffrey Sachs's *The End of Poverty: Economic Possibilities for our Time*," *Journal of Economic Literature*, Vol. XLIV, March 2006, pp. 96-105.

\*Easterly, *The White Man's Burden*, Ch. 1-2.

\*Banerjee and Duflo, *Poor Economics*, Ch. 1.

\*Nicholas Kristof, "Aid: Can It Work?" *New York Review of Books*, Vol. 53, No. 15, October 5, 2006.

\*Jeffrey Sachs, "How Aid Can Work" (Letter to the Editor), *New York Review of Books*, Vol. 53, No. 20, December 21, 2006.

\**The Economist*, "Special Report: The \$25 billion question – Aid to Africa," July 2, 2005, Vol. 376, Iss. 8433, p. 25.

### **Global public goods (application: advance market commitments) (1 class)**

\*\*Ruth Levine, Michael Kremer, and Alice Albright, "Making Markets for Vaccines: Ideas to Action," Center for Global Development, Advance Market Commitment Working Group, 2005.  
<http://www.cgdev.org/doc/books/vaccine/MakingMarkets-complete.pdf>

\*Jeffrey Sachs, "Helping the World's Poorest," *The Economist*, Aug. 12, 1999.

Prabhat Jha, et. al., "Improving the Health of the Global Poor," *Science*, Vol. 295, March 15, 2002, pp. 2036-2039.

### **The Evaluation Problem: How Do We Know What Works? (1 class)**

\*\*Banerjee, Abhijit and Esther Duflo (2009), "The Experimental Approach to Development Economics," *Annual Review of Economics*, Vol. 1, pp. 151-178.

\*Duflo, Esther, Rachel Glennerster, and Michael Kremer (2008), "Using Randomization in Development Economics Research: A Toolkit," in T. Paul Schultz & John A. Strauss (ed.), *Handbook of Development Economics*, Elsevier, Ch. 61, pp. 3895-3962.

### **Education (2 classes)**

#### **Class 1: The Supply Side**

\*\*Banerjee and Duflo, *Poor Economics*, Ch. 4.

\*Banerjee, Abhijit, Shawn Cole, Esther Duflo, and Leigh Linden, "Remedying Education: Evidence from Two Randomized Experiments in India," *Quarterly Journal of Economics*, 122(3), 2007, pp. 1235-1264.

JPAL brief version:

[http://www.povertyactionlab.org/sites/default/files/publications/26\\_Policy\\_Briefcase\\_2.pdf](http://www.povertyactionlab.org/sites/default/files/publications/26_Policy_Briefcase_2.pdf)

\*Duflo, Esther, Rema Hanna, and Stephen Ryan, "Incentives Work: Getting Teachers to Come to School," *American Economic Review*, 102(4), 2012, 1241-78.

JPAL brief version:

[http://www.povertyactionlab.org/sites/default/files/publications/80\\_Policy\\_Briefcase\\_6.pdf](http://www.povertyactionlab.org/sites/default/files/publications/80_Policy_Briefcase_6.pdf)

\*J-PAL Brief, "Showing Up is the First Step," *Abdul Lateef Jameel Poverty Action Lab*, MIT, Summer 2009. <http://www.povertyactionlab.org/publication/absenteeism-showing-first-step>

Paul Glewwe, Michael Kremer, Sylvie Moulin and Eric Zitzewitz, "Retrospective vs. Prospective Analyses of School Inputs: The Case of Flip Charts in Kenya," *Journal of Development Economics* 74(1), June 2004, pp. 251-268.

Michael Kremer, "Improving School Quality in Developing Countries," in Anne O. Krueger, ed., *Economic Policy Reform: The Second Stage*, University of Chicago Press: Chicago, 2000.

#### **Class 2: The Demand Side**

\*\*Jensen, Robert, "The (Perceived) Returns to Education and the Demand for Schooling," *Quarterly Journal of Economics*, 2010, 125(2), p. 515-548.

\*\*Kremer, Michael, Edward Miguel, and Rebecca Thornton. "Incentives to Learn," *Review of Economics and Statistics*, 91 (3):437-456. 2009.

Angrist, Joshua, Eric Bettinger, Erik Bloom, Elizabeth King, and Michael Kremer, "Vouchers for Private Schooling in Colombia: Evidence from a Randomized Natural Experiment," *American Economic Review*, Vol. 92, no. 5, December 2002, pp. 1535-1558.

## **Health**

\*\*Banerjee and Duflo, *Poor Economics*, Ch. 2, 3 and 5.

\*\*Deon Filmer, Jeffrey Hammer, and Lant Pritchett, "Weak Links in the Chain: A Diagnosis of Health Policy in Poor Countries," *World Bank Research Observer*, 15(2), August 2000, pp. 199-224.

\*Banerjee, Abhijit V., Esther Duflo, Rachel Glennerster, and Dhruva Kothari, "Improving Immunisation Coverage in Rural India: A Clustered Randomised Controlled Evaluation of Immunisation Campaigns with and without Incentives." *British Medical Journal*, 2010, Vol. 340: c2220.

JPAL brief version:

<http://www.povertyactionlab.org/publication/incentives-immunization>

\*Michael Kremer and Edward Miguel, "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities," *Econometrica*, Vol. 72, No. 1, 2004, pp. 159-217.

JPAL brief version:

[http://www.povertyactionlab.org/sites/default/files/publications/54\\_Policy\\_Briefcase\\_4.pdf](http://www.povertyactionlab.org/sites/default/files/publications/54_Policy_Briefcase_4.pdf)

\*Maccini, Sharon and Dean Yang, "Under the Weather: Health, Schooling, and Socioeconomic Consequences of Early-Life Rainfall," *American Economic Review*, Vol. 99, No. 3, June 2009, pp. 1006-1026.

Robert Fogel, "Economic Growth, Population Theory, and Physiology: The Bearing of Long-term Processes on the Making of Economic Policy," *American Economic Review*, 84(3), June 1994, pp. 369-395.

## **Microfinance (3 classes)**

### **Class 1: Credit**

\*\*Banerjee and Duflo, *Poor Economics*, Ch. 7.

\*\*Collins, Morduch, Rutherford, and Ruthven, *Portfolios of the Poor*, Ch. 5.

\*Armendariz and Morduch, *The Economics of Microfinance*, Ch. 1, 2, and 4.

\*Banerjee, Abhijit, Esther Duflo, Cynthia Kinnan, and Rachel Glennerster, "The miracle of microfinance? Evidence from a randomized evaluation," *American Economic Journal: Applied Economics*, forthcoming.

\*de Mel, Suresh, David McKenzie, and Chris Woodruff, "Returns to Capital: Results from a Randomized Experiment," *Quarterly Journal of Economics*, 123(4): 1329-72, 2008.



Bauchet, Jonathan, Cristobal Marshall, Laura Starita, Jeanette Thomas, and Anna Yalouris, "Latest Findings from Randomized Evaluations of Microfinance," *Access to Finance Forum*, No. 2, CGAP, December 2011.

<http://www.povertyactionlab.org/publication/latest-findings-randomized-evaluations-microfinance>

Banerjee, Abhijit V., and Esther Duflo (2010), "Giving Credit Where It Is Due." *Journal of Economic Perspectives*, 24(3): 61–80.

Morduch, Jonathan, "The Microfinance Promise," *Journal of Economic Literature*. Vol. 37 (4), Dec. 1999, pp. 1569-1614.

### **Class 2: Making Credit Markets Work**

\*\*Giné, Xavier and Dean Karlan, "Group versus Individual Liability: Short and Long Term Evidence from Philippine Microcredit Lending Groups," *Journal of Development Economics*, Vol. 107, 2014, pp. 65-83.

\*\*Giné, Xavier, Jessica Goldberg, and Dean Yang, "Credit Market Consequences of Improved Personal Identification: Field Experimental Evidence from Malawi," *American Economic Review*, Vol. 102, No. 6, October 2012, pp. 2923-2954.

JPAL brief version:

<http://www.povertyactionlab.org/publication/fingerprinting-reduce-risky-borrowing>

### **Class 3: Savings**

\*\*Banerjee and Duflo, *Poor Economics*, Ch. 8.

\*\*Collins, Morduch, Rutherford, and Ruthven, *Portfolios of the Poor*, Ch. 4.

\*\*Armendariz and Morduch, *The Economics of Microfinance*, Ch. 6 (sections 6.1-6.5, 6.8).

\*Nava Ashraf, Dean Karlan, and Wesley Yin, "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines," *Quarterly Journal of Economics*, Vol. 121 No. 2, May 2006, pp. 635-672.

\*Duflo, Esther, Michael Kremer, and Jonathan Robinson, "Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya," *American Economic Review*, Vol. 101, October 2011, pp. 2350-2390.

JPAL brief version:

<http://www.povertyactionlab.org/publication/well-timed-nudge>

Stuart Rutherford, *The Poor and Their Money*. Oxford University Press, New Delhi, 2000.

### **Risk and Insurance (1 class)**

\*\*Banerjee and Duflo, *Poor Economics*, Ch. 6.

\*\*Collins, Morduch, Rutherford, and Ruthven, *Portfolios of the Poor*, Ch. 3.

\*\*Armendariz and Morduch, *The Economics of Microfinance*, Ch. 6 (sections 6.6-6.7).



\*Giné, Xavier and Dean Yang, "Insurance, Credit, and Technology Adoption: Field Experimental Evidence from Malawi," *Journal of Development Economics*, Vol. 89, 2009, pp 1-11.

\*Morduch, Jonathan, "Between the State and Market: Can Informal Insurance Patch the Safety Net?" *World Bank Research Observer*, 14(2), August 1999.

Yang, Dean and HwaJung Choi, "Are Remittances Insurance? Evidence from Rainfall Shocks in the Philippines," *World Bank Economic Review*, Vol. 21 (2), May 2007, pp. 219-248.

Yang, Dean "Coping with Disaster: The Impact of Hurricanes on International Financial Flows, 1970-2002," *B.E. Journal of Economic Analysis and Policy*: Vol. 8, No. 1 (Advances), Article 13, 2008.

## **International Migration and Remittances (2 classes)**

### **Class 1: Migration**

\*\*Clemens, Michael, "Economics and Emigration: Trillion Dollar Bills on the Sidewalk?" *Journal of Economic Perspectives*, Vol. 25, No. 3, Summer 2011, pp. 83-106.

\*Clemens, Michael and Erwin Tiongson, "Split Decisions: Family Finance when a Policy Discontinuity Allocates Overseas Work," working paper, Center for Global Development and World Bank, 2012.

\*Hanson, Gordon, "The Economic Consequences of the International Migration of Labor," *Annual Review of Economics*, Vol. 1, 2009, pp. 179-208.

\*Shrestha, Slesh, "No Man Left Behind: Effects of Skilled Migration Prospects on Educational and Labor Outcomes of Non-Migrants," working paper, National University of Singapore, 2014.

\*Seshan, Ganesh, and Dean Yang, "Motivating Migrants: A Field Experiment on Financial Decision-Making in Transnational Households," *Journal of Development Economics*, Vol. 108, May 2014, pp. 119-127.

Birdsall, Nancy, Dani Rodrik, and Arvind Subramanian, "How to Help Poor Countries," *Foreign Affairs*, Vol. 84, Iss. 4, Jul/Aug 2005, p. 136.

Gibson, John and David McKenzie, "Eight Questions About Brain Drain," *Journal of Economic Perspectives*, Vol. 25, No. 3, Summer 2011, pp. 107-28.

World Bank, *Global Economic Prospects 2006: Economic Implications of Remittances and Migration*. Chapters 4 and 5.

World Bank, *Migration and Remittances Fact Book*. Online resource. (Skim the data on this website and look up information for regions and countries of interest to you.)

<http://go.worldbank.org/OGUCPJTOR0>

### **Class 2: Remittances**

\*\*Yang, Dean, "Migrant Remittances," *Journal of Economic Perspectives*, Vol. 25, No. 3, Summer 2011, pp. 129-152.

\*“Economics Focus: Monetary lifeline,” *The Economist*, July 31, 2004, p. 66.

\*Yang, Dean, “International Migration, Remittances, and Household Investment: Evidence from Philippine Migrants’ Exchange Rate Shocks,” *Economic Journal*, Vol. 118, April 2008, pp. 591-630.

\*Ashraf, Nava, Diego Aycinena, Claudia Martinez A., and Dean Yang, “Savings in Transnational Households: A Field Experiment among Migrants from El Salvador,” *Review of Economics and Statistics*, forthcoming.