

## Ec428: Development and Growth – Michaelmas Term 2018-2019

### Background Reading

For the empirical methods used in this course, a very good basic background reading is the textbook by Joshua D. Angrist & Jörn-Steffen Pischke called *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton University Press, 2009.

Some articles that discuss the pros and cons of using the method of randomized control trials in development economics are:

- Angus Deaton (2010): “Instruments, Randomization, and Learning about Development” *Journal of Economic Literature* 48: 424–455
- Abhijit V. Banerjee and Esther Duflo (2009): “The Experimental Approach to Development Economics”, *Annual Review of Economics*, Vol. 1: 151-178.
- Dani Rodrik (2008): “The New Development Economics: We Shall Experiment, But How Shall We Learn?”
- Angus Deaton and Nancy Cartwright (2018): “Understanding and Misunderstanding Randomized Controlled Trials”, *Social Science & Medicine*, Volume 210, August 2018, Pages 2-21. (This is a special issue of the journal that is on the topic of Randomized Controlled Trials and Evidence-based Policy: A Multidisciplinary Dialogue, with several other useful articles).
- “New Directions in Development Economics: Theory or Empirics?” A Symposium in *Economic and Political Weekly*, with contributions from Abhijit V. Banerjee, Pranab Bardhan, Kaushik Basu, Ravi Kanbur (Editor) and Dilip Mookherjee, *Economic and Political Weekly*, Vol. 40, No. 40, Oct. 1-7, 2005 (available on JSTOR <https://www.jstor.org/journal/econpoliweek>)

Links to various useful internet resources on writing papers, accessing and analysing data, preparing for presentation:

[http://personal.lse.ac.uk/ghatak/Guides\\_for\\_Economists.htm](http://personal.lse.ac.uk/ghatak/Guides_for_Economists.htm)

Broader perspectives on the state of the field can be found in:

- Debraj Ray (2008): Development Economics, in *The New Palgrave Dictionary of Economics*, edited by Lawrence Blume and Steven Durlauf.
- Dani Rodrik (2014): The Past, Present, and Future of Economic Growth, *Challenge*, 57:3, 5-39

See also the symposium on The Agenda for Development Economics - *Journal of Economic Perspectives* Volume 24, Number 3, Summer 2010: Articles by Deaton, Acemoglu, Ray, Rodrik, and Rosenzweig.

Here are some blogs that carry good informal pieces on development topics:

<http://voxdev.org/>

<https://blogs.worldbank.org/impactevaluations/>

<http://www.ideasforindia.in/>

## Reading List

### Topic 1: Introduction & Some Stylized Facts

We discuss some concepts relating to development and how it relates to economic growth. We then look at some stylized facts at the aggregate (country or regional) level to motivate the theoretical and empirical analysis of growth that we cover in the first part of the term.

\* Jones, Charles I., 2015: The Facts of Economic Growth, NBER Working Paper No. 21142.

\* Abhijit Banerjee and Esther Duflo (2006) "The Economic Lives of the Poor", April 2006, *Journal of Economic Perspectives*, Vo. 21(1), pp. 141-167. See this Working Paper [version](#) for tables.

Sen, Amartya (1988): "The Concept of Development", Chapter 1, Handbook of Development Economics, Volume L Edited by H. Chenery and T.N. Srinivasan, Elsevier Science Publishers B.V., 1988.

Ghatak, Maitreesh (2016): Measures of Development - Concepts, Causality, and Context Working Paper. Last Revised: September 2016. (All my unpublished papers, including this one, can be accessed at this link: <http://personal.lse.ac.uk/ghatak/wp.html>)

Acemoglu, Daron (2009): Chapter 1 in *Introduction to Modern Economic Growth*, Princeton University Press. You can download from the manuscript posted on IGC website [Introduction to Modern Economic Growth](#).

Jones, Charles I., and Paul M. Romer. 2010. "The New Kaldor Facts: Ideas, Institutions, Population, and Human Capital." *American Economic Journal: Macroeconomics*, 2(1): 224-45.

Galor, Oded (2005): From Stagnation to Growth: Unified Growth Theory, Chapter 5, Handbook of Economic Growth, Volume 1A. Edited by Philippe Aghion and Steven N. Durlauf, North Holland: Elsevier.

Lee, Ronald (2003): “The Demographic Transition: Three Centuries of Fundamental Change”, Journal of Economic Perspectives—Volume 17, Number 4—Fall 2003—Pages 167–190

Piketty, T. and E. Saez (2014): “Inequality in the long run”, Science, Special Section on the Science of Inequality, 23 MAY 2014 • VOL 344 ISSUE 6186

Herrendorf, Berthold, Richard Rogerson, and Akos Valentinyi (2014): “Growth and Structural Transformation”, Handbook of Economic Growth, Chapter 6, Volume 2, Edited by Philippe Aghion and Steven N. Durlauf, Pages 1-1070

Banerjee and Duflo (2008): “What is Middle Class about the Middle Classes Around the World?”, Journal of Economic Perspectives, Vol. 22, No. 2, pp. 3-28

## **Topic 2: Economic Growth**

In this topic we review the Solow and Neoclassical models, carry out some simple calibration exercises, and apply the framework on recent debates about inequality and growth in response to the work of Piketty.

\*Maitreesh Ghatak (2015): “Theories of Poverty Traps and Anti-Poverty Policies”, *World Bank Economic Review*, Papers and Proceedings of the ABCDE, Vol 29 (Supplement 1): S77-S105. (All my published papers, including this one, can be accessed at this link: <http://personal.lse.ac.uk/ghatak/pub.html>)

Mankiw, N. Gregory, David Romer and David N. Weil. 1992. “A Contribution to the Empirics of Economic Growth.” *Quarterly Journal of Economics*, 107 (2): 407-437.

Islam, Nazrul (1995): "Growth Empirics: A Panel Data Approach", *The Quarterly Journal of Economics*, Vol 110, No 4, 1127-1170.

Jones, L. and R. Manuelli (2005), Sections 2.1, 2.2, and 2.3: “Neoclassical Models of Endogenous Growth: The Effects of Fiscal Policy, Innovation and Fluctuations”, Volume 1A, Handbook of Economic Growth, Edited by Philippe Aghion and Steven N. Durlauf.

Easterly, W. and R. Levine (2001), Section II: "It's Not Factor Accumulation: Stylized Facts and Growth Models," *World Bank Economic Review*, Vol 15, No. 2, 177-219.

Acemoglu, Daron (2007): Chapters 2 and 3 in [\*Introduction to Modern Economic Growth\*](#), Manuscript posted on IGC website.

Acemoglu, Daron and James A. Robinson (2014): "The Rise and Decline of General Laws of Capitalism", NBER Working Paper No. 20766.

Krusell, Per, and Anthony A. Smith (2015): "Is Piketty's "Second Law of Capitalism" Fundamental?", *Journal of Political Economy*, Vol. 123, No. 4, pp. 725-748

Caselli, Francesco (2004) :Accounting for Cross-Country Income Differences, NBER Working Paper No. 10828

Acemoglu, Daron, Simon Johnson, and James A. Robinson (2005), Sections 2,3, and 4: Institutions as a Fundamental Cause of Long-Run Growth, Chapter 6, in D. Rodrik and M. Rosenzweig (ed.s) *Handbook of Development Economics V*, North Holland, 2009.

### **Topic 3: Poverty Traps – Theory & Evidence**

We examine some mechanisms of the vicious cycle of poverty. In the presence of transactions costs leading to financial market imperfections, an economy may fail to converge to the efficient steady state, and remain trapped in poverty. The initial wealth distribution may play a crucial role in governing the future trajectory of the economy.

\*Maitreesh Ghatak (2015): "Theories of Poverty Traps and Anti-Poverty Policies", *World Bank Economic Review*, Papers and Proceedings of the ABCDE, Vol 29 (Supplement 1): S77-S105.

\*Oriana Bandiera, Robin Burgess, Narayan Das, Selim Gulesci,

Imran Rasul and Munshi Sulaiman (2016): "[Labor Markets and Poverty in Village Economies](#)", Forthcoming, *Quarterly Journal of Economics*.

\* Clare Balboni, Oriana Bandiera, Robin Burgess, Maitreesh Ghatak and Anton Heil (2018) "[Why do people stay poor?](#)" Work in Progress. (Slides only)

Maitreesh Ghatak and Nien-Huei Jiang (2002): "A Simple Model of Inequality, Occupational Choice and Development". *Journal of Development Economics*, Vol. 69, No. 1, October. (Available: <http://personal.lse.ac.uk/ghatak/pub.html>)

Banerjee, A. (2002), Section 4: "[Contracting Constraints, Credit Markets and Economic Development](#)", *MIT Dept. of Economics Working Paper No. 02-17*.

Banerjee, B. and E. Duflo (2004): "[Growth Theory through the Lens of Development Economics](#)" December 2004, forthcoming in Handbook of Development Economics. (Sections 1-3)

Azariadis, Costas (1996): "[The Economics of Poverty Traps Part One: Complete Markets](#)", *Journal of Economic Growth*, Vol. 1, No. 4, p. 449-486.

#### **Topic 4: Coordination Failure & Sorting**

We briefly discuss some mechanisms by which history can matter. In the presence of externalities and complementarities in actions of individuals, there can be multiple equilibria. Two identical economies can end up at very different levels of development depending on initial conditions.

\*Debraj Ray (1998): "History, Expectations and Development", Chapter 5, *Development Economics*, Princeton University Press, 1998.

\*Basu, Kaushik and Van, Pham Hoang. (1998): "The Economics of Child Labor." *American Economic Review*, June 1998, 88(3), pp. 412–27.

M. Kremer (1993): "The O-Ring Theory of Economic Development", *Quarterly Journal of Economics*, August.

Murphy, K., A. Shleifer and R. Vishny (1989) : "Industrialization and the Big Push" *Journal of Political Economy*, pp. 1003-1026.

Sam Bowles, Glenn Loury, and Rajiv Sethi "[Group Inequality](#)" Working Paper, Columbia University.

Donald Davis and David Weinstein (2002): "Bones, Bombs, and Break Points: The Geography of Economic Activity", *American Economic Review*, 92(5).

Nathan Nunn (2009): "The Importance of History for Economic Development," Annual Review of Economics, Vol. 1, No. 1, September 2009, pp. 65-92.

### **Topic 5: Credit Markets in Developing Countries I: Theory and Evidence on Credit Market Imperfections**

Financial markets play a crucial role in economic development by allowing those who have talents and skills but not money, to undertake investments by using the surplus savings of others. If this market is subject to frictions, then worthwhile projects may not be undertaken for lack of money, thereby depressing national income below its potential. We study theoretical models of frictions in financial markets, and empirical evidence on their importance.

\* Karlan, D. and J. Zinman (2009): "[Observing Unobservables: Identifying Information Asymmetries with a Consumer Credit Field Experiment](#)", *Econometrica*, 77(6).

\* Suresh de Mel, David McKenzie and Christopher Woodruff (2008): "[Returns to Capital in Microenterprises: Evidence from a field experiment](#)", Quarterly Journal of Economics, Vol 123, Issue 4.

\* Raghuram Rajan and Luigi Zingales (1998): "Financial Dependence and Growth", American Economic Review, 88(3).

\* Abhijit Banerjee, Esther Duflo (2014) "[Do Firms Want to Borrow More? Testing Credit Constraints Using a Directed Lending Program](#)" *Review of Economic Studies*, 81.

Parikshit Ghosh, Dilip Mookherjee and Debraj Ray: "Credit Rationing in Developing Countries: An Overview of the Theory", by, Chapter 11 in Readings in the Theory of Economic Development, edited by D. Mookherjee and D. Ray, London: Blackwell, 2000, pages 383--301.

Banerjee, A. (2002), Sections 2, 3: "Contracting Constraints, Credit Markets and Economic Development, MIT Dept. of Economics Working Paper No. 02-17.

Abhijit Banerjee, Esther Duflo and Kaivan Munshi (2003): "[The \(mis\)-allocation of capital](#)" Journal of the European Economic Association, Papers and Proceedings.

Pascaline Dupas and Jonathan Robinson (2013): "[Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya](#)," *American Economic Journal: Applied Economics*, 5(1): 163–192

Jack, William, Michael Kremer, Joost de Laat, and Tavneet Suri (2018): "Borrowing Requirements, Credit Access, and Adverse Selection: Evidence from Kenya." Working Paper.

## **Topic 6: Credit Markets in Developing Countries II : Theory and Evidence on Impact of Micro Finance**

Microfinance has been a popular instrument of development policy. We look at theoretical models of how microfinance works as a mechanism, and empirical studies of its impact.

\* Ghatak, Maitreesh and Timothy W. Guinnane: "The Economics of Lending with Joint Liability : Theory and Practice" *Journal of Development Economics*, Vol.60, No.1, October 1999. (Available at: <http://personal.lse.ac.uk/ghatak/pub.html>)

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

\* Abhijit Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan (2015): "The Miracle of Microfinance? Evidence from a Randomized Evaluation", *American Economic Journal: Applied Economics*, vol. 7, no. 1, pp. 22-53.

Abhijit Banerjee, Dean Karlan, and Jonathan Zinman (2015): "[Six Randomized Evaluations of Microcredit: Introduction and Further Steps](#)," *American Economic Journal: Applied Economics*, vol. 7, no. 1, pp. 1-21.

Besley, T., K. Burchardi, and M. Ghatak (2017): Financial Inclusion, Entrepreneurship, and Employment Creation : Theory and a Quantitative Assessment, Working Paper. (Available at: <http://personal.lse.ac.uk/ghatak/wp.html>)

De Quidt, Jon, Thiemo Fetzer, and Maitreesh Ghatak (2017): "Commericalization and the Decline of Joint Liability Microcredit", Working Paper. Last revised: February, 2016. (Available at: <http://personal.lse.ac.uk/ghatak/wp.html>)

Meager , Rachael (2016): "[Aggregating Distributional Treatment Effects: A Bayesian Hierarchical Analysis of the Microcredit Literature](#)", Working Paper.



Hussam, Reshmaan, Natalia Rigol, and Benjamin Roth (2017): “[Targeting High Ability Entrepreneurs Using Community Information: Mechanism Design In The Field](#)”, Working Paper.

De Quidt, Jon, Thiemo Fetzer, and Maitreesh Ghatak (2017): “Market Structure and Borrower Welfare in Microfinance”, Working Paper. (Available at: <http://personal.lse.ac.uk/ghatak/wp.html>)

De Quidt, Jon, Thiemo Fetzer, and Maitreesh Ghatak (2012b) : “Group Lending Without Joint Liability,” Forthcoming, *Journal of Development Economics*. (Available at: <http://personal.lse.ac.uk/ghatak/pub.html>)

Banerjee, A. V. (2012, September). Microcredit Under the Microscope: What Have We Learned in the Past Two Decades, and What Do We Need to Know? *Annual Review of Economics* 5 (1).

Erica Field, Rohini Pande, John Papp and Natalia Rigol (2013): “Does the Classic Microfinance Model Discourage Entrepreneurship among the Poor? Experimental Evidence from India”, *American Economic Review*, October 2013, 103(6): 2196-2226.

Erica Field, Rohini Pande and Benjamin Feigenberg (2013): “The Economic Returns to Social Interaction: Experimental Evidence from Microfinance”, *Review of Economic Studies*, October 2013, 80(4): 1459-1483.

## **Topic 7: Land & Property Rights - Theory**

Property rights are at the heart of a market economy and some trace the problem of underdevelopment as a problem of imperfect property rights. In this topic we examine various mechanisms through which property rights affect economic efficiency.

\* Besley, T. and M. Ghatak (2009) (Sections 1 and 2): “Property Rights and Economic Development”, in D. Rodrik and M. Rosenzweig (ed.s) *Handbook of Development Economics* V, North Holland, 2009. (Available at: <http://personal.lse.ac.uk/ghatak/pub.html>)

\* Banerjee, A.V., P. Gertler and M. Ghatak (2002) : "Empowerment and Efficiency - Tenancy Reform in West Bengal", *Journal of Political Economy*. (Available at: <http://personal.lse.ac.uk/ghatak/pub.html>)



\* Besley, T., K. Burchardi, and M. Ghatak (2012): Incentives and the de Soto Effect, *Quarterly Journal of Economics*. (Available at: <http://personal.lse.ac.uk/ghatak/pub.html>)

Ghatak, M. (2016): Property Rights and Development - A Brief Overview. Working Paper. First version: May, 2016. (Available at: <http://personal.lse.ac.uk/ghatak/wp.html>)

de Janvry, Alain, Kyle Emerick, Marco Gonzalez-Navarro and Elisabeth Sadoulet. (2015). "Delinking Land Rights from Land Use: Certification and Migration in Mexico." *American Economic Review*, 105(10): 3125-49.

De Soto, Hernando, (2001), "The Mystery of Capital," Finance and Development, IMF, available at: <http://www.imf.org/external/pubs/ft/fandd/2001/03/desoto.htm>.

Field, Erica and Maximo Torero, (2006), "[Do Property Titles Increase Credit Access Among the Urban Poor? Evidence from a Nationwide Titling Program](#)," Mimeo. Harvard.

S. Galiani and E. Schargrodsky (2010): "[Property Rights for the Poor: Effects of Land Titling](#)", *Journal of Public Economics*.

## **Topic 8: Land & Property Rights and Productivity - Evidence**

Agriculture occupies a central place in less developed economies. We study the effect of changes in property rights on productivity.

\* Konrad Burchardi, Selim Gulesci, Benedetta Lerva, and Munshi Sulaiman (2018): "[Moral Hazard: Experimental Evidence from Tenancy Contracts](#)", Forthcoming, *The Quarterly Journal of Economics*, qjy023, <https://doi.org/10.1093/qje/qjy023>

\* Goldstein, Markus, Kenneth Hounghbedji, Florence Kondylis, Michael O'Sullivan, and Harris Selod (2018): "Formalization without certification? Experimental evidence on property rights and investment", *Journal of Development Economics* 132 (2018) 57–74

Besley, Timothy (1995): "Property Rights and Investment Incentives: Theory and Evidence from Ghana", *Journal of Political Economy*, Vol. 103, No. 5 (Oct., 1995), pp. 903-937.

Banerjee, A.V., P. Gertler and M. Ghatak (2002) : "Empowerment and Efficiency - Tenancy Reform in West Bengal", *Journal of Political Economy*. (Available at: <http://personal.lse.ac.uk/ghatak/pub.html>)

Gollin, Douglas, David Lagakos, and Michael E. Waugh (2014): "[Agricultural Productivity Differences across Countries](#)" *American Economic Review: Papers & Proceedings*, 104(5): 165–170

Karlan, Dean, Dean Robert Osei, Isaac Osei-Akoto, and Christopher Udry (2014): "Agricultural Decisions after Relaxing Credit and Risk Constraints", *The Quarterly Journal of Economics* (2014), 597–652

Markus Goldstein, and Christopher Udry (2008): "[The Profits of Power: Land Rights and Agricultural Investment in Ghana](#)", *Journal of Political Economy*, 116 (2).