EC428: Development and Growth

Syllabus

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London School of Economics, Michaelmas Term 2020

Background Reading

My notes entitled *Primer on Contract and Game Theory* is a necessary background reading. I will assume you have read it during my lectures and will skip some of the technical details.

For empirical methods used in this course, good background readings are:

- Scott Cunningham, 2020, *Causal Inference: The Mixtape*, Yale University Press (a free online version is available: [https://mixtape.scunning.com/](https://mixtape.scunning.com/))

Here are two essays by me on the method of Randomized Control Trials (RCTs) in development economics in light of last year’s Nobel Prize:


Here are some articles that discuss methodological aspects of research in development economics, including the pros and cons of using RCTs:


• 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).


• Susan Athey and Guido W. Imbens (2017): The Econometrics of Randomized Experiments, Handbook of Economic Field Experiments, Chapter 3, Volume 1, 2017, Pages 73-140


• 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](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

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

- 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/
- http://www.ideasforindia.in/

This is a website that has some lecture notes on Development Economics (focusing mainly on theory) by Debraj Ray, Dilip Mookherjee, Andrew Newman, Ethan Ligon, and myself: https://teaching.devecon.org

Sources of working papers:

- https://cepr.org/publications/programme_area/area?proarea=DE
- http://ibread.org/bread/papers
- https://www.nber.org/papersbyprog/DEV.html
- http://thred.devecon.org/

For review articles, the following journals are the standard references in Economics, with the last two being on Development issues:

- https://www.annualreviews.org/loi/economics
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- https://www.aeaweb.org/journals/jel
- https://www.aeaweb.org/journals/jep
- https://academic.oup.com/wber
- https://academic.oup.com/wbro

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, both at the aggregate (country) level as well as from household surveys that tell us how the poor live, with special focus on their consumption and income generation.

Required readings (marked by *):

* Lecture Slides


* 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

Further readings (not required):


Richard V. Reeves and Eleanor Krause (2018): “Raj Chetty in 14 charts: Big findings on opportunity and mobility we should all know”, Brookings Social Mobility Memos, January 11, 2018.


Dylan Matthews (2018): The global top 1 percent earned twice as much as the bottom 50 percent in recent years, Vox.com.


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


**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.

**Required readings (marked by *):**

* Lecture Slides


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

**Further readings (not required):**
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.


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.

Required readings (marked by *):

* Lecture Slides


Further readings (not required):


**Topic 4: Coordination Failure, Sorting, and Multiple Equilibria**

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.

**Required readings (marked by *):**


**Further reading (not required):**


Sam Bowles, Glenn Loury, and Rajiv Sethi Group Inequality Working Paper, Columbia University.


**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.

**Required readings (marked by *):**

* Lecture Slides


Further readings (not required):


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.

Required readings (marked by *):

* Lecture Slides


Further readings (not required):


Topic 7: Land, Property Rights, & Agricultural Productivity - 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.

Required readings (marked by *):

*Lecture Slides


Further readings (not required):


**Topic 8: Land, Property Rights, & Agricultural Productivity - Evidence**

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

**Required readings (marked by *):**

* Lecture Slides


**Further readings (not required):**


**Topic 9: Direct Transfer Policies**

In this section we discuss the issues involved in designing transfer programmes directed at the poor in the context of a developing country. Some of the questions we will study are as follows: should these be conditional or unconditional cash transfers or in-kind transfers? How much should one worry about bureaucratic costs of targeting vs empowering the poor to decide what do they want to do with the transfers? We will also discuss issues on the supply side (namely, implementation through bureaucracy) of delivery of these programmes.

**Required readings (marked by *):**

* Lecture Slides


Further readings (not required):


