

Fall Semester 2008
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19.662 Development Microeconomics

I. WHAT THIS COURSE IS ABOUT

The economics of development is one of the most exciting and the most complex subjects in social science. The aim of this course is to convey as much of the excitement of development economics by providing the student with an informed understanding of the process of economic development using micro-level analytical tools and insights into the social and economic conditions that confront people in the developing world. It examines the varied attempts of countries in Africa, Asia, and Latin America in dealing with the forces of globalization, increased trade, and economic growth as well as financial crises, poverty and inequality.

Throughout this survey course, we will explore the meaning and varied dimensions of "economic development" and "human development". This is not an easy task since unlike most areas within economics, there exists a wide range of paradigmatic approaches ranging from new household economics and neoclassical economics to heterodox economics, feminist economics and institutional economics. They provide different theoretical perspectives and microfoundations for alternative development strategies and policies.

We will also learn from people's experiences as they grapple with different patterns of economic development, globalization, economic crises or shocks as we examine selected micro-level areas of people's choices, constraints and responses. Explanations abound and various economic policies and strategies have been developed, adopted and defended in the name of economic and social progress. We will examine issues such as household models, intrahousehold allocation, livelihood strategies, land markets and property rights, migration labor markets and employment, risk, insurance, credit, insurance, and poverty and hunger among others. The development literature is quite extensive and so we deal only with a subset of micro-level development issues. The topics in this section are selected to minimize the sense of disjointness that inevitably accompanies survey courses.

II. COURSE REQUIREMENTS

A. PREREQUISITES AND COURSE FORMAT

Students taking this course are expected to have already taken either:

19.500 - Price Theory or its equivalent, or

19.501 - Income Theory

since the level of discussion as well as assigned readings presuppose familiarity with economic concepts and analysis at the **intermediate level**. Familiarity with development related courses is helpful.

In addition, it is helpful to have some background in statistics/econometrics and familiarity with statistical packages. An introductory class on statistical package STATA will be offered in the second week of class at the Hurst Computer Center (TBA).

The course will take the combined format of lecture and **active student participation** in class discussions. Students are expected to be active participants in all class meetings and have read the materials ahead of time. There will be a few guide questions given ahead of time for some topics. I encourage you to form study groups as well.

III. REQUIRED TEXTBOOKS AND READINGS

There are two textbooks for this course, which are available in the campus bookstore namely:

1. Pranab Bardhan and Christopher Udry, *Readings in Development Economics: Empirical Microeconomics*, MIT Press, 2000.
2. Debraj Ray, *Development Economics*, Princeton University Press, 1998.
3. Stefan Dercon, *Insurance Against Poverty*, Oxford University Press, 2005

The remainder of the required readings will be made available either through e-journal online (AU library website), BLACKBOARD and/or hard copy. We will be using intensively the blackboard for this course. Announcements and reminders as well as data sources, guide questions will be circulated through this website.

IV. COURSE REQUIREMENTS, FORMAT AND GRADES.

A. ASSIGNED READINGS.

Students are expected to read AHEAD the assigned readings in this course. They not only make it easier for students to follow the class lectures and discussions but also provide the complementary elements as well as detailed explanation of the concepts and issues covered in the lecture/discussion. You are expected to attend class and participate in class discussion. Attendance will be taken.

B. TA:

The TA for this course is Lina Salazar who will be available for assistance. Please note her office hours; you can email her ahead of time if you want to make an appointment.

C. COURSE REQUIREMENTS

1. RESEARCH PAPER (40%)

You will be required to develop a research paper that includes submitting the following:

- a) thesis statement and outline (5%)
- b) Literature review. (10%)
- c) Final Research paper. (25%)

The research paper should be an in-depth exploration of any topic covered in this course. The thesis statement, outline and references is 2-4 pages. Literature review paper should be max 10 page and final research paper should be max 20 pages (excluding cover page, tables and references). Bear in mind that this has to be a micro-level development problem. Please find below a detailed description of the above paper components and requirements. Please make sure that you follow the guidelines below.

1. Thesis Statement and Outline (5%)

Develop a clear statement identifying the issue or problem you want to examine. Formulate an OUTLINE of the main sections of your paper, along with a list of possible references.

DUE DATE: OCTOBER 8. No Extensions

2. Literature Review (10%):

A literature review examines the contributions and limitation, methodology and key findings of the relevant studies that a) have examined this issue theoretically and/or empirically; and that b) identify policies or projects that either affect and/or are appropriate to address the development concern or problem. It should not be a mere summary or annotated bibliography of these studies. Rather, you need to *compare and contrast* the different approaches or perspective used by the various researchers or authors who have examined the issue. Be sure to critically evaluate their premises and method of investigating the problem or issue.

The bibliography sections of the textbooks and assigned articles are good starting points. The use of the AU library databases and JSTOR as well as internet also provides additional materials on the subject but you need to be selective and must cite fully these sources. [see: *Tips for writing a good review paper* and *Sample of Reference Citations*]

DUE DATE: OCTOBER 29 No extensions.

3. Final Research Paper (25%)

The final research paper should incorporate the following:

a) Introduction and Significance of the Study - This includes the thesis statement as well as a brief discussion of the significance of such a study, taking into account the analytical, methodological, empirical or policy merits of the issue being discussed.

b) Review of literature (revised). This section should address the comments of the draft. Be sure to compare and contrast the different approaches or perspective used by the various researchers or authors who have examined the same issue. Be sure to critically evaluate their premises and methodology.

c) Theoretical or Empirical Analysis of the Thesis -. This main section of your paper must provide your own (conceptual or empirical) analysis of the issue. Be sure to explain or describe briefly the methodology and data (if relevant) you intend to use. Make use of both quantitative as well as qualitative analysis to test your thesis statement. Exploratory extensions or modifications of existing theoretical models are another option. Be sure to mention which work you plan to extend or modify and the basis for doing this. Explain clearly what difference in premises and assumption do you want to pursue. Be sure to lay out clearly the proof or development of the model or framework.

d) Concluding Remarks. Make a brief summary of your main findings or position regarding your thesis. Then set out your recommendations, whether for policy or for further area of research.

e) Bibliography. This section should list all references you cite or have used in preparing the paper including those from the internet (citing the website).

The paper must be typed, double-spaced and should have a maximum length of 15 pages (including tables, figures).

RESEARCH PAPER DUE: Fri, DECEMBER 12

2. EMPIRICAL ASSIGNMENT AND CLASS PARTICIPATION (20%)

An empirical assignment will be given to you in the next few weeks. You will be asked to analyze a data set collected in a developing country. You will be asked to research on the relevant economic/institutional background of the country, analyse the data provided (in the website) and answer some questions about the data. The data analysis will require some knowledge of econometrics and STATA. Those with weak background on STATA should attend the intro section on STATA.

ASSIGNMENT DUE: SEPTEMBER 24

CLASS PARTICIPATION

In addition, each student is expected to come prepared for discussion of the assigned readings. You will be expected to discuss them by knowing:

- a) what the article is about;
- b) what are the key arguments or hypotheses presented;
- c) how are these examined or empirically tested, and
- d) what are the policy significance or such a study.

Occasionally, guide questions or exercises are given; and students should come prepared to discuss their answers in class as well.

3. FINAL EXAM (40%)

A final exam covering all the topics covered in the course will be held at the end of the semester. The final exam will be given **on December 3**.

COURSE GRADE AND DEADLINES:

The course grade will be based on the following:

Research paper	40%
Assignment	10%
Class Participation	10%
Final Exam	40%
TOTAL	100%

Students are required to receive a passing grade (70 (C) or above) in all course requirements to receive a passing grade for the course. The equivalent letter grades are:

- A (90-100)
- B (80-89%)
- C (70-79%)
- D (60-69%).
- F (59% and below).

Please note that each letter category includes both pluses and minuses. Late submissions and extensions will not be accepted/given unless accompanied by a written letter (stating medical or important emergency reason) and accompanying note from doctor.

As a reminder, please note the following **due dates**:

September 24: EMPIRICAL ASSIGNMENT

October 8: THESIS STATEMENT AND PAPER OUTLINE

October 29: LITERATURE REVIEW PAPER

December 3: FINAL EXAM

December 10: RESEARCH PAPER

E. ACADEMIC HONESTY AND INTEGRITY:

One final, important note: I trust that students in this course **will follow the Academic Integrity Code of the University in their assignment, research paper and exam.** With regards to the research paper requirement,

make sure that you cite your sources or references properly and **avoid any form of plagiarism**. I also encourage you to work with your fellow students, but what you hand in or present must be your own work, including the empirical assignment. Honesty system is enforced during final exam.

Plagiarism and other violations such as cheating will be dealt with according to the Academic Integrity Code.

V. COURSE SCHEDULE AND ASSIGNED READINGS

There are two sets of readings for each class: one set provides the theoretical model and conceptual framework of analyses (those with round bullets); the other set provides applied or empirical studies (those with arrow bullets). You are required to read a selection from each set. I will post the selected readings in the Blackboard. [Note: This schedule and assignment are subject to change. You will be notified ahead of time if there are any changes. Please check the announcement section of the blackboard on a weekly basis.]

Week 1, August 28

I. COURSE OVERVIEW

A HISTORICAL PERSPECTIVE OF ECONOMIC DEVELOPMENT

- RAY, Chapter 1 (skim), Ch. 2,
- John Toye (2004), “Changing Perspectives in Development Economics, in Ha-Joon Chang (ed) “Rethinking Development Economics” Anthem Press, London, [BLACKBOARD]
- Barbara Harris-White (2003), “On Understanding Markets as Social and Political Institutions in Developing Economies”, in a-Joon Chang (ed) “Rethinking Development Economics” Anthem Press, London. [BLACKBOARD]

B. CONTEXT OF MICROECONOMIC ANALYSIS

- Kenneth Arrow (1994) “Methodological Individualism and Social Knowledge” American Economic Review, Vol. 84, June [JSTOR]/[BB]
- Brian Arthur (1994) “Bounded Rationality and Inductive Reasoning “, American Economic Review, Vol. 84, June [JSTOR]/[BB]

Week 2, September 4:

C. CHALLENGES OF TODAY’S WORLD: POVERTY, INEQUALITY AND RISK

- Stefan Dercon, “Risk, Insurance and Poverty: A Review” in DERCON (2005)
- RAY, Chaps 8 (pp. 249-268).
- Banerjee, A and E. Duflo (2006), “The Economic Lives of the Poor”, MIT Dept of Economics Working Paper.
- Reddy, S. et al. (2007), “Inter-country Comparisons of Poverty Based on a Capability Approach: An Empirical Exercise.

Supplementary Data:

UNDP, Human Development Report (2007/08) [www.undp.org/hdr/global/hdr 2007/].

Week 3 September 11

II. SELECTED TOPICS

A. Household Economics

- Singh, I., L. Squire and J. Straus (1986), “A Survey of Agricultural Household Models: Recent

- Findings and Policy Implications”, *World Bank Econ Rev.* Vol. 1, pp 149-179 [BLACKBOARD]
- Alderman, H., Chiappori, P-A, Haddad, L., Hoddinott, J. and Kanbur, R. (2004) ‘Unitary Versus Collective Models of the Household: Time to Shift the Burden of Proof’, World Bank Policy Research Working Paper Series No. 1217, Washington, D.C.: World Bank. [BLACKBOARD]
- Elizabeth Katz, "Breaking the Myth of Harmony: Theoretical and Methodological Guidelines to the Study of Rural Third World Households", *Review of Radical Political Economics*, Vol 23, Nos 3 and 4, 1991, pp. 37-56. [BLACKBOARD]
- ❖ Udry, C. “Gender, Agricultural Production and the Theory of the Household.” in *BARDHAN AND UDRY (2000)*
- ❖ Elizabeth Katz (1995), “Gender and Trade within the Household: Observations from Rural Guatemala”, *World Development*, Vol. 23, No. 2. [BLACKBOARD]
- ❖ Carter M. and Y. Yao (2002) “ Local versus Global Separability in Agricultural Household Models: Factor Price Equalization Effect of Land Transfer Rights”, *American Journal of Agricultural Economics* 84(3): 702-15. [BLACKBOARD]

Week 4 September 18

B. Intrahousehold Allocation

- Agarwal, Bina (1997). “Bargaining’ and Gender Relations: Within and Beyond the Household.” *Feminist Economics* 3(1): 1-51.[JSTOR/BB]
- Sen, Amartya (1990), “Gender and Cooperative Conflict” in Irene Tinker (ed), *Persistent Inequalities*, Oxford University Press, Oxford pp. 123-149 [BLACKBOARD]
- Carter, M. and Katz, E. (1998), “Separate Spheres and the Conjugal Contract: Understanding the Impact of Gender Biased Development” in Hoddinott, John, Harold Alderman and Lawrence Haddad (eds.) (1998) *Intrahousehold Resource Allocation in Developing Countries: Methods, Models and Policy*. Johns Hopkins University Press. [BLACKBOARD]
- ❖ Quisumbing, A. and J. Maluccio (2003). “Resources at Marriage and Intrahousehold Allocation: Evidence from Bangladesh, Ethiopia, Indonesia and South Africa.” *Oxford Bulletin of Economics*[BLACKBOARD]
- ❖ Thomas, Duncan, “Intra-Household Resource Allocation: An Inferential Approach” in *BARDHAN AND UDRY (2000)*
- ❖ Hoddinott, J. and L. Haddad (1995). "Does Female Income Share Influence Household Expenditure? Evidence from Cote d'Ivoire." *Oxford Bulletin of Economics and Statistics* 57(1):77-96. [JSTOR/BB]

Week 5 September 24

C. Interlinkage of Transactions and Agricultural Markets

- Ray Chap 11, 14
- Bardhan and Udry, Chap 9
- Kaushik Basu (1984). “Implicit Interest Rates, Usury and Isolation in Backward Agriculture”, *Cambridge Journal of Economics*, Vol. 8 [BLACKBOARD]
- ❖ M. Floro and Pan Yotopoulos, Income Distribution, Transaction Costs and Market Fragmentation in Informal Credit Markets, *Cambridge Journal of Economics*, Vol, 16. 1991.[JSTOR/BLACKBOARD]
- ❖ P. Bardhan (1984), Land, labor and Rural Poverty: Essays in Development Economics, Oxford University Press, Chaps 9 and 12. [BLACKBOARD]

- ❖ T. Timberg and C. Aiyar, “Informal Credit Markets in India”, *Economic and Political Weekly*, Volume 15, February. [BLACKBOARD]

REMINDER: EMPIRICAL ASSIGNMENT DUE DATE: SEPT 24

Week 6 *October 1*

D. Livelihood and Coping Strategies

- Ellis F. 1998. “Household Strategies and Rural Livelihood Diversification.” *Journal of Development Studies* 35(1):1-38.[JSTOR; BLACKBOARD]
- M. Carter and Zimmerman (2003). “Asset Smoothing, Consumption Smoothing and the Reproduction of Inequality under Risk and Subsistence Constraints”, *Journal of Development Economics*, Vol. 71 [JSTOR/BLACKBOARD]
- Marcel Fafchamps et al. (1998), “Drought and Savings in West Africa: Are Livestock a Buffer Stock?” *Journal of Development Economics*, Vol . 55, No. 2. [BLACKBOARD]
- ❖ Robert Townsend, “Risk and Insurance in Village India” in *BARDHAN AND UDRY (2000)* [skim sec 3-4].
- ❖ E. Frankenberg et al (2003) “Economic Shocks, Wealth and Welfare”, *Journal of Human Resources*, Vol. 38, No. 2. [JSTOR/BLACKBOARD]
- ❖ C. Levin et al, (1999) Working Women in an Urban Setting: Traders, Vendors and Food Security in Accra”, *World Development*, Vol. 27, No. 11. [BLACKBOARD]

REMINDER: THESIS STATEMENT AND PAPER OUTLINE DUE DATE: October 8

Week 7 *October 8*

E. Migration

- Ray – Chapter 10: Rural and Urban
- Stark O. and D. Bloom 1985 “The New Economics of Labor Migration”, *American Economic Review* 75(2):173-178.[BLACKBOARD]
- ❖ Lucas, R. 1985. “Migration amongst the Botswana.” *Economic Journal* 95(2):358-82.
- ❖ Stark O. and J. E. Taylor. 1991. “Migration Incentives, Migration Types: The Role of Relative Deprivation.” *Economic Journal* 101(4):1163-78. [BLACKBOARD]
- ❖ Paul Winters, Marco Stampini and Benjamin Davis. “Do conditional cash transfers influence migration? A study using experimental data from the Mexican PROGRESA program.” *Demography* Vol. 42(4), November 2005, pp. 769-790. [BLACKBOARD]

Week 8, *October 15*

F. Labor Markets and Employment Patterns

- RAY, Ch. 13.
- Beneria, Lourdes and M. Floro (2005) “Distribution, Gender and Labor Market Informalization: A Conceptual Framework,” forthcoming in L. Beneria and Neema Kudva, eds., *Rethinking Informalization: Precarious Jobs, Poverty and Social Protection*, Cornell e-Publishing [Blackboard]
- Eswaran, M. and A. Kotwal. 1985. “A Theory of Two Tier Labor Markets in Agrarian Economies.”

- ❖ Banerjee et al, (2007) “ Why Has Unemployment Risen in the New South Africa?” NBER Working Paper 13167, June [<http://www.nber.org/papers/w13167>]
- ❖ M. Kevane (1994), “Village Labor Markets in Sheikan Distrcit, Sudan”, *World Development*, *World Development*, Vol. 22. [BLACKBOARD]
- ❖ Guy Standing, “Global Feminization Through Flexible Labor: A Theme Revisited”, *World Development*, 1999 [BLACKBOARD]
- ❖ Duncan Thomas and John Strauss, Health and Wages: Evidence on Men and Women in Urban Brazil” in *BARDHAN AND UDRY (2000)*

Week 9 October 22

G. The Informal Sector

Background Reading:

ILO, *Decent Work and the Informal Economy*, International Labor Office, June 2002., Chaps 1-2 (pp. 1-38). [www.ilo.org/]

- G. Ranis and F. Stewart (1999). “V-Goods and The Role of the Urban Informal Sector”, *Economic Development and Cultural Change*, Vol. 47. No. 2. [BLACKBOARD]
- Pratap and QUINTAN (2006), “The Informal Sector in Developing Countries”, UNU-WIDER paper No. 2006/130 [BLACKBOARD]
- Cathy Rakowski (1994), “Convergence and Divergence in the Informal Sector Debate: A Focus on Latin America, 1984-92”, *World Development*, Vol. 22, April. [BLACKBOARD]

- ❖ Keith Hart (1973) “Informal Income Opportunities and Urban Employment in Ghana”, *Journal of Modern African Studies*, Vol. 11, No. 1, 1973) [BLACKBOARD].
- ❖ Kate Meagher (1995). “Crisis, Informalization and the Urban Informal Sector in Sub-Saharan Africa”, *Development and Change*, Vol. 26. [BLACKBOARD]
- ❖ Maitreyi Bordia Das (2003) “The Other Side of Self-Employment: Household Enterprises in India” , Social Protection Discussion Series, September 2003, World Bank, Washington DC. <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0318.pdf>

Week 10, October 29

H. Risk, Vulnerability and Poverty

- RAY, Chap 15
- Ligon. E. and , Laura Schechter (2003) “Measuring Vulnerability”, *The Economic Journal* 113 (486) [BLACKBOARD].
- Kamanou and Morduch, “Measuring Vulnerability to Poverty” in DERCON (2005)

- ❖ Christopher Udry (1994) “Risk and Saving in Northern Nigeria” in BARDHAN AND UDRY (2000)
- ❖ Stefan Dercon and John Hoddinott, “Health, Shocks and Poverty Persistence” in DERCON (2005).
- ❖ Goldstein et al, “Is a Friend in Need a Friend Indeed? Inclusion and Exclusion in Mutual Insurance Networks in Southern Ghana” in DERCON (2005).

- ❖ E. Ligon, “Targetting and Informal Insurance” in DERCON (2005).

REMINDER: LITERATURE REVIEW DUE DATE: OCTOBER 29

Week 11, November 5

Credit Markets and Microfinance

- RAY, Chapter 14.
- Jonathan Conning and Kevane, “Why is there not More Financial Intermediation in Developing Countries?” in DERCON (2005).
- Jerry Skees et al, “Can Financial Markets be Tapped to Help Poor People Cope with Weather Risks?” in DERCON (2005).
- Aliou Diagne, Manfred Zeller and Manohar Sharma, “Empirical Measurements of Households’ Access to Credit and Credit Constraints in Developing Countries” FCND Discussion paper No. 90, International Food Policy Research Institute, July 2000.[BLACKBOARD]
- ❖ Jonathan Morduch, “Does Microfinance Really Help the Poor? New Evidence on lending Program in Bangladesh” Paper Presented at the NEUDC Conference, Yale University, October 1998.[BLACKBOARD]
- ❖ S. Navajas et. al (2000). “Microcredit and the Poorest of the Poor”, *World Development*, Vol. 28.[BLACKBOARD]
- ❖ A. M. and Gupta, R. S. (1996) Who Takes the Credit? Gender, Power, and Control Over Loan Use in Rural Credit Programs in Bangladesh, *World Development* 24 (1), pp. 45-63. [BLACKBOARD]

Week 12. November 12

Land Markets and Property Rights

- Ray – Chapter 12
- Jean-Philippe Platteau, “The Gradual Erosion of Social Security Function of Customary Land Tenure Arrangements in Lineage-based Societies” in DERCON (2005).
- K. Moene. (1992) “Poverty and Landownership”, *American Economic Review*, March.[JSTOR/BLACKBOARD]
- ❖ T. Besley (1995). “Property Rights and Investment Incentives: Theory and Evidence from Ghana”, in BARDHAN AND UDRY (2005)
- ❖ C. Diane Deere and Magdalena Leon, (2003). “The Gender Asset Gap: Land in Latin America.” *World Development* Vol. 31, No. 6.
- ❖ E. Jimenez. (1984). “Tenure Security and Urban Squatting, *Review of Economic Studies*, Vol. 66, No. 4.

Week 13, November 19

Food Security, Poverty and Public Action

- Ray – Chapter 8: Poverty and Undernutrition section
- Sen, A. 1981 “Ingredients of Famine Analysis: Availability and Entitlements”, *Quarterly Journal of Economics* 96(3):433-64. [JSTOR/BLACKBOARD]
- ❖ R. Copestake et al. (2005) “Monitoring the Diversity of Poverty Outreach and Impact of Microfinance: A Comparison of Methods Using Data from Peru”, *Development Policy Review* Vol. 23, No. 6. [BLACKBOARD]
- ❖ Stefan Dercon and Pramila Krishnan. “Food Aid and Informal Insurance” in DERCON (2005)

- ❖ Stefan Dercon “ Risk, Poverty and Public Action” in DERCON (2005).
- ❖ Albarran and Attanazio, “Do Public Transfers Crowd Out Private Transfers? Evidence from a Randomized Experiment in Mexico” in DERCON (2005).

NO CLASS NOVEMBER 26 (THANKSGIVING BREAK)

Week 14, December 3
FINAL EXAM

RESEARCH PAPER DUE DECEMBER 10, WED.