

ECON 416: Theory of Economic Development Spring 2014

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Office hours: Tuesdays, 3:30-5:30 pm

Course Description: This course will cover fundamental issues in development economics. There are five modules: poverty, inequality, and growth; land and labor markets; credit markets; risk and insurance; and empirical evidence about human capital (health and education). The class will emphasize using economic theory to understand underlying questions about development. Students will also develop their skills in explaining theoretical predictions and empirical evidence in short, policy-focused memos. Course readings will include textbooks, policy pieces, and academic articles.

Class Meetings: Tydings 1114, Tuesday and Thursday 11-12:15

Textbooks:

Banerjee, Abhijit and Esther Duflo. *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. PublicAffairs, 2012. (Abbreviated BD in reading list below; **contains required readings**.)

Todaro, Michael P. and Stephen C. Smith. *Economic Development*. Prentice Hall, 2011.
(I recommend the 11th edition and the syllabus refers to chapters in that edition, but students may choose to use earlier editions at their discretion. Abbreviated TS in reading list below; **chapters are not available through eReserves**.)

Schaffner, Julie. *Development Economics: Theory, Empirical Research, and Policy Analysis*. Wiley, 2013. (This is a new textbook, so it is not fully integrated into the course. However, I think it might be the most useful general reference for students in Econ 416. Abbreviated JS in reading list below; **chapters are not available through eReserves**.)

We will also read individual chapters from two additional textbooks. The additional textbooks are:

Nicholson, Walter and Christopher Snyder. *Microeconomic Theory: Basic Principles and Extensions*. South-Western/Cengage Learning, 2012.

Ray, Debraj. *Development Economics*. Princeton University Press, 1998.

These chapters, and selected other readings, will be available through the eReserves system, and accessible on the course's Elms site. Please find these readings by selecting "Modules" and then "Course Reserves" (under the heading "Libraries") on the Elms site.

Grading:

1) Two Midterm Exams (20% of course grade each) and a Final Exam (30% of course grade)

Students are required to take both exams on class exam dates. Exams are considered major scheduled grading events. Make-up exams will be granted only to those students who communicate with the professor within 48 hours of the scheduled exam time and provide written verification of a reason that complies with University policy: medical conditions, religious observances, participation in University events at the request of University authorities, and compelling circumstances beyond your control. For more details, please see the website referenced in the “Expectations of Students” section below. If a student misses an exam and cannot document a valid excuse, the grade will be recorded as a zero.

2) Four written memos (20% of course grade)

Four memos will be assigned over the course of the semester. Memos will be graded on a 3-point scale: 1-satisfactory, 2-good, 3-excellent. Memos will assess students’ ability to apply knowledge of economic theory and interpretation of data to policy scenarios. They will require students to identify and consult sources not provided on the reading list for background information and data. They will be graded on the accuracy of responses to specific parts of each assignment, clarity and correctness of reasoning, and on the quality of writing and presentation.

Students may discuss memo assignments with classmates before beginning to write, but it is a violation of the university honor code to copy another student's memo (or the charts or graphs included in another student’s memo). Students should not share drafts with each other. Each student must turn in his or her own memo.

Memos must be submitted on ELMS, and uploaded as PDF files. Please ensure that you know how to create and upload a PDF file to ELMS before the first due date. Memos submitted after the due date and time will be penalized: 1 point will be deducted from memos submitted after the due date and time but not more than 24 hours late; 2 points will be deducted from memos submitted more than 24 but less than 48 hours after the due date and time; no credit will be given for memos submitted more than 48 hours late. Also, failure to turn in a memo will result in a 0 being recorded for your grade. Students with a valid medical excuse according to the University’s policy should communicate with me as soon as possible in order to make arrangements for alternate submission.

3) Four in class exercises (10% of course grade)

Four class sessions will be devoted to small-group work on mathematical exercises. All students will be expected to actively contribute to solving these problems in class. Students will turn in one problem set per group, and the problem sets will be graded on a 3-point scale: 1-satisfactory, 2-good, 3-excellent. At the instructor’s discretion, individual members of the group may receive higher or lower grades than the group average, to reflect individual contributions or lack thereof. Students who are absent from class will receive a 0 on the exercise completed in that class; it is not possible to make up the assignment or submit it outside of class. In calculating the final course grade, I will drop the lowest of the four scores on the in class exercises.

4) Extra credit

Students may earn extra credit by completing one (and only one) extra assignment. Students who complete the assignment satisfactorily (earning the equivalent of a 3 on a memo assignment) will receive a letter grade one third higher than their point total otherwise indicates (i.e. a B will be increased to a B+),

a B+ to an A-). The extra credit assignment cannot be used to convert a failing grade into a passing grade, or to raise the grade from a D+ to a C-. The assignment must be submitted no later than April 29, through ELMS.

The assignment is a written report based on reading a novel by an author from a developing country, from the following list. The report should consist of two parts:

- a) A summary of how the novel illustrates three of the key concepts discussed in class.
- b) A description of one economic decision that a character or group in the novel faced. This description should be accompanied by either equations summarizing the choice problem, or a diagram of the choice problem. The description should explain the relevant constraints as well as the objective. Then, please explain whether the characters made the decision that would be predicted by standard economic theory, and if not, why not. You should cite at least three sources in this explanation. These sources can be materials from the class syllabus, other textbooks, or other academic or professional publications, but they may not be blog posts or non-academic internet sources.

I expect that this assignment will require about four typed pages of text, plus 1-2 diagrams, to complete. This assignment is included because it provides an opportunity for students to read about developing countries in a different way – in the words, or through the eyes, of people from those countries. It also illustrates the notion that the day-to-day decisions that people make in all countries are economics – and that the decisions of the very poor, and those living in places with limited institutions and infrastructure, are often more complicated and have more severe consequences than those of the affluent.

Eligible books:

When Rain Clouds Gather, by Bessie Head (Botswana)
The Lowland, by Jhumpa Lahiri (India)
Cutting for Stone, by Abraham Verghese (Ethiopia)
Half of a Yellow Sun, by Chimamanda Ngozi Adichie (Nigeria)
Nervous Conditions, by Tsitsi Dangarembga (Rhodesia, now Zimbabwe)
In the Shadow of the Banyan, by Vaddey Ratner (Cambodia)

Academic Integrity: The University of Maryland, College Park has a nationally recognized Code of Academic Integrity, administered by the Student Honor Council. This Code sets standards applicable to all undergraduate students, and you are responsible for upholding these standards as you complete assignments and take exams in this course. See www.studenthonorcouncil.umd.edu.

Course Website: Students should use their directory ID and password to access www.elms.umd.edu. Relevant documents and announcements will be posted on the course website. It is expected that students will check the course website every week.

The University has adopted email as the primary means of communication outside the classroom, and I will use it to inform you of important announcements. Students are responsible for updating their current email address via the appropriate link on <http://www.testudo.umd.edu/Registrar.html>. Failure to check email, errors in forwarding email, and returned email due to “mailbox full” or “user unknown” will not excuse a student from missing announcements or deadlines. I will try to reply to your e-mails within 24 hours during the school week, but please do not expect a response over the weekend.

Students with disabilities who require special accommodations must get in touch with the instructor within the first three weeks of class.

Expectations of Students: Read the assigned readings before the class in which they will be covered, and ask questions whenever you find something confusing or problematic. Complete homework (memos) before they are due, making sure you leave yourself enough time to get answers to any questions you might have. The memos are designed to take more than one day to complete; you must begin working on them well before they are due.

If you miss any lectures, you are still responsible for the material that was covered. The material we cover each week builds on the content of the previous weeks. You should try to catch up right away; if you do not, you will find yourself slipping farther and farther behind. Get notes from a classmate and thoroughly review the relevant section of the text. After going through these steps, if you have questions, then visit me during office hours or make an appointment.

If you find that you will be unable to participate in class activities for more than three days in a row due to illness or other valid excuses (see <http://www.umd.edu/catalog/index.cfm/show/content.section/c/27/ss/1584/s/1540> for the University's definition of valid excuses) you must contact me by email to explain. You will not be allowed postpone a midterm because of absences earlier in the semester unless you have informed me IN ADVANCE of your situation.

Course Outline

(Note that this is tentative; weeks are subject to change per instructor's notice. Readings in bold are required; others are recommended.)

<u>Lecture</u>		<u>Topic</u>
1	1/28	<u>Poverty and Inequality</u> BD chapter 1 ; TS chapter 5; JS chapter 2.4, 2.5; JS chapter 5.
2	1/30	<u>Growth and Convergence</u> TS chapter 2; JS chapter 3; Jones, Chad (1997). "On the Evolution of the World Income Distribution," <i>Journal of Economic Perspectives</i>, Vol. 11, No. 3, pages 19-36. (available on eReserves on ELMS site)
3	2/4	<u>Solow Model</u> JS chapter 4; TS chapter 3, appendix 3.1-3.2 ; (it would also be helpful to review the Solow Model in your favorite intermediate macro textbook; <i>Advanced Macroeconomics</i> by David Romer is a good choice)

4	2/6	In class exercises: Solow Model Memo #1 Due
5	2/11	<u>Risk Aversion</u> Nicholson chapter 7 (available on eReserves on ELMS site)
6,7	2/13, 2/18	<u>Agricultural Land Markets</u> TS chapter 9
8	2/20	In class exercises: Agricultural Contracts
9	2/25	<u>Agricultural Productivity and Technology Adoption</u> JS chapter 20.1, 20.2
	2/27	Midterm Exam #1
10, 11	3/4, 3/6	<u>Neoclassical Models of Credit Markets</u> Ray chapter 14 (available on eReserves on Elms site)
12, 13	3/11, 3/25	<u>Adverse Selection, Moral Hazard</u> BD chapter 7
OPTIONAL	3/13	<u>Careers in Economic Development</u>
14	3/27	In class exercises: Adverse Selection Memo #2 Due
15	4/1	<u>Microcredit</u> BD chapter 7; Bauchet et al. (2011). “Latest Findings from Randomized Evaluations of Microfinance,” Access to Finance FORUM report, Consultative Group to Assist the Poor, World Bank. Available at http://www.povertyactionlab.org/publication/latest-findings-randomized-evaluations-microfinance ; JS chapter 21
16	4/3	<u>Microsavings, Time Inconsistency</u> BD chapter 8; JS chapter 10.3
17	4/8	<u>Returns to Capital</u> BD chapter 9
18	4/10	<u>Income and Consumption Smoothing</u> Morduch, Jonathan (1995). “Income Smoothing and Consumption Smoothing,” <i>Journal of Economic Perspectives</i> , Vol. 9, No. 3, pages 103-

114. (Available on eReserves on ELMS site.)

Memo #3 Due

19	4/15	<u>Informal Insurance</u> BD chapter 6
20	4/17	<u>Health in LDCs</u> TS chapter 81, 8.6-8.7; BD chapter 3
	4/22	Midterm Exam #2
21	4/24	<u>Nutrition and Efficiency Wages</u> TS chapter 8.8; JS chapter 6.2
22	4/29	<u>Returns to Schooling</u> TS chapter 8.2-8.5; Psacharopoulos, George (1994). "Returns to Investment in Education: A Global Update," <i>World Development</i>, Vol. 22, No. 9, pages 1325-1343. (Available on eReserves on ELMS site.)
		Last day to submit optional extra credit assignment
23	5/1	<u>Education in LDCs</u> BD chapter 4; JS chapter 19
24	5/6	<u>Conditional and Unconditional Cash Transfers</u> JS chapter 15; Schultz, T. Paul (2004). "School Subsidies for the Poor: Evaluating the Mexican Progressa Poverty Program," <i>Journal of Development Economics</i>, Vol. 74, pages 199-250. (Available on eReserves on ELMS site; it is not necessary to read the appendix.)
25	5/8	<u>Household Bargaining Models</u> JS chapter 7; Duflo, Esther (2003). "Grandmothers and Granddaughters: Old Age Pension and Intra-Household Allocation in South Africa," <i>World Bank Economic Review</i>, Vol. 17, No. 1, pages 1-25. (Available on eReserves on ELMS site.)
26	5/13	In class exercises: Bargaining Models Memo #4 Due
	5/15	Final Exam*

* **Final Exam:** Will be administered during scheduled exam time (8:00 am-10:00 am), per University scheduling