

# Development Economics I (31E15000)

Teacher: Dr. Miri Stryjan

Period 2: 26.10. - 02.12.2020

Mondays 13.15-15.00 ONLINE via Zoom

Wednesdays 10.15-12.00 ONLINE via Zoom

## Part 1: The Microeconomics of Development.

**What is poverty, and what are some important aspects of life for poor people/in low income countries of relevance to economics?** In this part of the course we will also discuss, in parallel with the "topic areas" outlined below, empirical tools e.g. regression analysis and methods related to causal estimation such as randomized field experiments, difference in differences and instrumental variable strategies. This will be done in Exercise sessions and using examples from the well-known and/or recent econ papers. We will also revisit micro-theoretical models, primarily utility maximization problems and production functions.

*WEEK 1 (Monday 26.10.20, Wednesday 28.10.20, Friday 30.10.20)*

1. **Monday 26.10: Poverty numbers and definitions, brief introduction to modern Development Economics.** Introduction of the course and the students, plan for the course. Brief introduction to Development economics, with focus on Micro-oriented approaches. We will also go through the most common poverty measures, look at poverty numbers according to these measures.  
**Concepts:** Poverty headcount, Poverty gap, Human development index, Relative vs absolute poverty measures, PPP adjustments.  
**Empirical methods:** Randomized controlled trials (RCTs).
2. **Wednesday 28.10: The Livelihood of the Poor 1: Agriculture.** We will go over stylized facts about agriculture in low income countries, and discuss recent research on two suggested reasons for the low productivity that we see in agriculture in such countries: low technology adoption and sharecropping arrangements/limited land rights.  
**Concepts:** Investments, Incentives, Production function, Moral Hazard, Information, Risk attitudes.  
**Empirical methods:** Randomized controlled trials (RCTs).

**Friday 30.10: EXERCISES 1 and 2: TWO exercise classes, 10-12 and 13-15 – one about basics of statistics and causal inference (why random assignment, why a control group, Selection problems and OVB), one about Difference in Differences. Teaching Assistant: Maarit Olkkola**

*WEEK 2 (Monday 02.11.20, Wednesday 04.11.20, Friday 06.11.20)*

3. **Monday 02.11: The Livelihood of the Poor 2: Labor markets in low income countries.** Guest lecture by Dr. Simone Schotte from UNU WIDER.  
**Themes include:** self-employment, informal sector, rural to urban migration.
4. **Wednesday 04.11: The Livelihood of the Poor 3: Private sector, Small firms and Self Employment.** In this lecture, we will keep discussing how the poor in low income countries make their living, and what characterizes non rural labor markets in these countries. We will go through recent research on self-employment and constraints to business growth.  
**Concepts:** Production function, Business growth, Investments, Information.

**Empirical methods:** Randomized controlled trials (RCTs), Instrumental Variables (IV).

**Friday 06.11:** *EXERCISES 3 and 4: TWO exercise classes, 10-12 and 13-15 – one about regression control, bad controls, omitted variable bias, and one about instrumental variables.*  
*Teaching Assistant: Maarit Olkkola*

**Homework 1 handed out on Monday 9.11.**

*WEEK 3 (Mon 09.11.20, Wed 11.11.20, Friday 13.11.20)*

5. **Monday 09.11: Credit for the poor, microfinance.** In this lecture we will focus on a specific “enabler” of business investment and growth: credit. We will discuss the characteristics of credit markets and products for the poor, and discuss recent *impact evaluations* of access to microcredit.

**Concepts:** Production function, Information, moral hazard and adverse selection, trust.

**Empirical methods:** Randomized controlled trials (RCTs), Impact evaluation.

6. **Wednesday 11.11: Health in low income countries 1:** Guest lecture by Dr. Milla Nyysölä from UNU WIDER

**Themes include:** measures of health and living standards, health challenges in developing countries, health and the SDGs.

**Friday 13.11: EXERCISE 5, 10-12:**

*Paper reading and critically evaluating (instructions for Homework 1)*

*Teaching Assistant: Tuomas Markkula.*

*WEEK 4 (Monday 16.11.20, Wednesday 18.11.20)*

7. **Monday 16.11: Health in low income countries 2:** Health investment decisions of the household. reasons for under-investment in preventive health.

**Concepts:** Household utility function, Information, Time preferences, Externalities, Opportunity costs, Cost – benefit calculations, Trade-offs, Human Capital investments.

**Empirical methods:** Regression control and heterogenous effects, Randomized controlled trials (RCTs), Instrumental Variables (IV).

## Part 2: A more macro oriented perspective on development.

**Why does poverty exist and persist and what can explain the differences in growth and prosperity between countries?**

In this part of the course we will also discuss, in parallel with the "topic areas" outlined below, empirical tools such as regression analysis and methods related to causal estimation, primarily instrumental variable approaches. We will also revisit theoretical models, primarily standard models of economic growth.

8. **Wednesday 18.11: Cross-country differences** Why are some countries poor and others rich? This lecture introduces the “big theories” that seek to explain such differences between countries, and discusses the empirical challenges for testing those theories.

**Concepts:** Proximal vs fundamental/deep causes of development, historical explanations, the role of geography for economic development.

**Empirical methods:** Regression control, Instrumental variables.

**Deadline to Submit homework 1 on Friday 20.11**

WEEK 5 (Monday 23.11.20, Wednesday 25.11.20, Friday 27.11.20)

**Homework 2 handed out Monday 23.11**

9. **Monday 23.11: Growth models:** Guest lecture by Dr. Michael Danquah from UNU WIDER  
**Concepts:** Economic growth, Neoclassical growth model, Endogenous growth, Human capital.
10. **Wednesday 25.11: The Institutional approach to development 1:** Introduction to formal and informal institutions and their role for economic development and prosperity. Theoretical background, connecting to econ theory, how institutions (both formal and informal) address transaction costs and increase efficiency. Some examples of research that looks at informal institutions (e.g. Trust, norms).  
**Concepts:** Transaction costs, information problems, Commitment problems, Trust, Norms.

**Friday 27.11: EXERCISE 6: 10-12.**

*Feedback on homework 1. Computing poverty measures. Connecting growth to the poverty measures and poverty reduction, instructions for homework 2. Teaching Assistant: Tuomas Markkula.*

WEEK 6 (Monday 30.11.20, Wednesday 02.12.20)

11. **Monday 30.11: The Institutional approach to development 2:** Guest lecture by Professor Kunal Sen from UNU WIDER.  
**Concepts:** Formal institutions, growth, GDP per capita, property rights, deep determinants of development.  
**Empirical methods:** Instrumental variables
12. **Wednesday 02.12:** Concluding and wrapping up the material covered in the course, summary of course.

**Deadline to Submit homework 2 on Friday 4.12**

**Lecture assignments:** Short assignments based on the mandatory reading for the lectures should be submitted for 7 lectures (of your choice) and are graded on a pass/fail basis.

**Exercises sessions:**

- **four exercises** in the first two weeks of recap on statistical/econometrics basics (coordinated with Matti Sarvimäki's Economic History course in the same period). Topics covered are: causal inference: the experimental ideal, what is a good control group, selection problems and omitted variables, RCTs, Difference in differences and Instrumental Variables approach, with examples from papers related to the course. TA for these exercises is Maarit Olkola.
- **two exercises** adapted to the content of this course: one focusing on reading and critically evaluating academic papers (for homework 1), one focused on poverty and growth measures (for homework 2). TA for these sessions is Tuomas Markkula

**Grade composition:**

50% Submissions during course: Homeworks (30%) and Lecture assignments (20%)

50% Final exam

**Preliminary exam dates:**

Course exam: Fri 11.12.20 09:00-12:00

Re-exam T01: Friday 05.02.21 14:00-17:00