

# ECO 324Y1

## ECONOMIC DEVELOPMENT

University of Toronto  
Department of Economics

Fall 2011 – Spring 2012

**Lectures:** Monday 2:00 pm - 4:00 pm, Friday 2:00 pm – 3:00 pm

**Location:** Fall – Sidney Smith Hall (100 St. George St.), Room 1069  
Winter – Earth Sciences Centre (33 Willcocks Street), Room B142

Dr. Gustavo J. Bobonis  
Associate Professor  
Department of Economics  
Max Gluskin House  
150 Saint George Street, Room 304

Phone: 416-946-5299  
E-mail: [gustavo.bobonis@utoronto.ca](mailto:gustavo.bobonis@utoronto.ca)  
Office hours: Wednesday  
4:15pm-5:15pm (drop-in)  
5:15pm-6:15pm (by appointment<sup>1</sup>)

---

### COURSE DESCRIPTION

The course provides a survey of current economic issues faced by less developed countries and an introduction to the study of development economics. The course has two main objectives: (i) to critically examine the major debates in the problems of international economic development and (ii) to integrate economic theory and empirical analysis to answer questions pertinent to economic policy in developing economies. A lot of attention will be paid to contemporary issues and policy aspects.

We will cover the following topics in detail: the concepts and measurement of economic development; theories of economic growth and development; human capital (education and health) and household decision-making; credit and insurance; gender and development; inequality and development: economic and political interconnections; the roles of the state; international trade and trade policy; the foreign aid debate; debates regarding the ‘ultimate’ determinants of economic development.

The course assumes a strong grounding in intermediate microeconomics, macroeconomics, and basic statistics. Given the empirical emphasis of the material, knowledge of basic econometrics will also be essential, though some of the most important econometric results will be reviewed in class and tutorials. We will also review basic concepts in game theory in class and tutorials.

### PREREQUISITES

Microeconomic Theory – ECO200Y/204Y/206Y

Macroeconomic Theory – ECO202Y/208Y/209Y

Quantitative Methods in Economics – ECO220Y/227Y/STA(247H,248H)/(250H, 255H)/(257H, 261H)

Note: Prerequisites are strictly checked and enforced and must be completed before taking this course. By taking this course you acknowledge that you will be removed from the course at anytime if you do not meet all requirements set by the Department of Economics. Please talk to Ms. Robbie Innes

---

<sup>1</sup> To make an appointment, see office hours section of the syllabus (page 5).

(Undergraduate Administrator, Department of Economics) if you have any doubt about whether you meet the requirements.

I expect that you will be able to perform basic calculus (i.e., take simple partial derivatives) and have a basic understanding of game theory. The TA will offer brief reviews of the more advanced background material.

## MEETINGS

Most lectures are Mondays, 2:10 to 4:00. We will also make some use of the Friday time slot (2:10 to 3:00), especially to accommodate time for tutorials and for additional time to cover material. I will announce ahead of time whether we will be using the Friday slot in a particular week.

## COURSE MATERIALS

Required Readings: Articles and book chapters listed in the Course Outline and Readings Section will be linked to the course website as necessary.

### Required Textbook:

Ray, Debraj. Development Economics. Princeton, NJ: Princeton University Press. 1998.

The textbook is available at the Short-Term Loan Service at the Robarts Library (4th Floor) in a very limited number (one copy). Because it is not a new textbook, you should be able to find used copies online (e.g., [www.chapters.indigo.ca](http://www.chapters.indigo.ca), [www.amazon.ca](http://www.amazon.ca)) at substantial discounts.

### Recommended Books:

We will draw heavily from the following books, so it might be worth your while to purchase them (especially since they are relatively inexpensive – about \$20 new from major on-line retailers.)

Banerjee, Abhijit V., and Esther Duflo. Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty. New York, NY: Public Affairs. 2011.

Easterly, William. The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics. Cambridge, MA: MIT Press. 2002.

## COURSE WEBSITE

The course website is on the UofT Blackboard Portal:

**Fall-2011-ECO324Y1-Y-LEC0101: Economic Development.**

The website is an important means by which I make announcements to the class, as well as distribute additional readings and practice questions. We will be using Blackboard to manage class communications, so it is vital that you log on to Blackboard and provide an email address that you check regularly.

## E-MAIL POLICY

I will do my best to respond to e-mail within 24 hours on a weekday, 48 hours on a weekend, according to the following policy:

- a) I will only respond to e-mails posing questions that can be answered in a sentence or two. For detailed questions, please see me or the TA in office hours.
- b) I will not reply to e-mails that request information that can be found on the website or the syllabus, so you should check those places first.
- c) I will not reply to e-mails regarding the results of graded material – for that, please see me in office hours.

## EVALUATION

### Graded Material and Grade Allocation

The final grade for the course is based on the following:

<u>Percentage</u>	<u>Component</u>	<u>Date(s)</u>
40%	Two (2) in-class term exams, each worth 20%	Midterm 1: November 14, 2011 Midterm 2: February 6, 2012
10%	Five (5) <i>announced</i> pop quizzes, each worth 2%	n/a
20%	Two (2) assignments (each worth 10%)	Assignment 1: November 28, 2011 Assignment 2: March 5, 2012 (draft) March 26, 2012
30%	Final Exam	<b>TBD</b>

The centerpiece of the tests will be the theoretical and empirical analysis of economic development issues in the context of the course readings and class discussions. **The term tests are not cumulative;** they only cover materials since the last midterm. **The final examination will be cumulative.** Classroom participation may be a factor in borderline grading cases.

### Appeals Policy:

Appeals will be conducted according to the following procedure:

- For any test, if a student wishes to appeal a grade, he/she must provide a **written explanation** of why they believe their grade is mistaken, and submit it to me *within one week of being returned to the class*.
- Conditional on this argument being found persuasive by me, it is likely that the *entire* exam will be re-graded, and the appealed grade can be lower or higher than the original grade. Note: This does not apply to trivial appeals such as points being added incorrectly.

### Policy on Missed Tests

**Midterm Exams and Quizzes:** A grade of zero will be given to students who do not write any one of the two midterms or a quiz (a “term test”), unless an **appropriate and convincing** note is received **within one week** of the missed test (explaining why the test was missed).

If the student misses a term test due to illness:

- The note must be provided using the University of Toronto medical certificate. No other documentation will be accepted. You can find a copy of the form here: <http://www.healthservice.utoronto.ca/pdfs/medcert.htm>
- The form must be completed by a Medical Doctor, and include the doctor's OHIP registration number.
- Only original notes will be accepted. I will not accept photocopies or emailed certificates.
- The note must clearly state that on the date of the test, the student was too sick to write the test. Notes that simply state that a doctor saw the student on the date of the midterm will not be accepted. Illness before the test is not sufficient grounds for missing the test. Nor will I accept notes that indicate that the student would have performed "sub-optimally".
- To comply with these requirements, it is expected that the student will have met with the doctor on the date of the test.
- **The student must email me the day of the test to indicate that they will not be able to write the test.**
- I will review each sick note to determine whether there are sufficient grounds for a student to be excused from a test. Part of this review process may include meeting with the student, and/or following up with a physician.
- It is an academic offense to feign illness to avoid a test.

If the student misses a term test due to another excused absence (e.g., funeral, car accident):

- The note must be accompanied by a note from a responsible adult that I can verify *in order for excusal to even be considered*. The validity of the excuse will also be evaluated by the undergraduate chair.

If a student has been excused from a midterm exam, he or she will be permitted to write the make-up test. The make-up test will be held on Friday, March 2<sup>nd</sup>, 2011, at 2:00p-4:00p.

- Consistent with university policy, there is no "make-up test" for the make-up test. No medical excuses will be accepted, and a grade of zero will be applied if a student fails to write the make-up test.
- Note that the make-up test is AFTER the drop date (February 20<sup>th</sup>, 2012).

If a student has been excused from a quiz, the weight for the missed quiz will be transferred to the final.

**Final:** The final will be governed by the University's rules for missing final examinations.

### Assignments

In order to develop skills in econometric methods, interpreting and discussing theoretical concepts and empirical evidence in economics, students must complete two assignments (one in each semester).

- Details will be announced throughout the semester, but the basic idea is that students will be provided data and assigned a set of questions based on those data (assignment 1), and an article (or book chapter) and asked to conduct a critical review of the piece (assignment 2).
- The assignments are expected to be (maximum) *six* pages in length (double spaced), plus tables (if appropriate).
- Concerning late penalties, assignments handed in after 2:10pm of their due date will be penalized by 10 percentage points per business day. I will not accept assignments after 4:00pm of the Friday following the due date.
- Extensions to the deadline for the assignments will not be granted for any reason.

### Practice Questions

I will periodically assign questions and problem sets on the web page that are taken either from the text or from past midterms and exams. While these questions will not be collected for grading, you are expected to complete them (doing so is essential to get a good mark in the class). If you have any problems with the questions from a particular section, please see the TA or me about them as soon as possible during office hours.

## ACADEMIC MISCONDUCT

Students should note that copying, plagiarizing, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero on the assignment, test or examination to dismissal from the university as outlined in the academic handbook. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties.

As a student it is your responsibility to ensure the integrity of your work and to understand what constitutes an academic offence. If you have any concerns that you may be crossing the line, always ask your instructor. Your instructor can explain, for example, the nuances of plagiarism and how to use secondary sources appropriately; he or she will also tell you what kinds of aids -- calculators, dictionaries, etc. -- are permitted in a test or exam. **Ignorance of the rules does not excuse cheating or plagiarism.** For more information regarding the Code of Behaviour on Academic Matters please visit (<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>).

## OFFICE HOURS

Wednesdays: 4:15p to 5:15p (drop-in – no appointment required)  
5:15p to 6:15p (by appointment only, 15 minutes)  
Appointments can easily be made through: <https://my.timedriver.com/V3CW6>

## TEACHING ASSISTANTS

Ms. Lisa Glynn ([lisa.glynn@utoronto.ca](mailto:lisa.glynn@utoronto.ca)) and Ms. Ayesha Ali ([ayesh.ali@mail.utoronto.ca](mailto:ayesh.ali@mail.utoronto.ca)). Teaching Assistant office hours will be posted on the course website.

## COURSE OUTLINE AND READINGS:

**\* = Additional readings that are suggested but not required. For these readings you are only responsible for what is covered in lecture or tutorial.**

### 1. Economic Development and Development Economics

Ray, Chapter 1 (“Economic Development: Overview”), pp. 7-44.

Banerjee and Duflo, Chapter 1 (“Think Again, Again”), pp. 1-16.

\*Sen, Amartya. “The Perspective of Freedom.” Chapter 1 in Development as Freedom. Oxford: Oxford University Press. 1999.

## 2. Social Welfare and Development

[Tools: Social welfare and poverty analysis]

Banerjee and Duflo, Chapter 2 (“A Billion Hungry People?”), pp. 19-40.

Ray, Chapter 6 (“Economic Inequality”) and Chapter 8.2.2 (“Poverty Measures”), pp. 169-193, 249-292 (esp. 253-256, 290-292)

\*Deaton, Angus (1997). The Analysis of Household Surveys: A Microeconometric Approach to Development Policy, Section 3.1 (“Welfare, Poverty, and distribution”), pp. 133-161.

\*Sen, Amartya. “Poverty as Capability Deprivation.” Chapter 4 in Development as Freedom. Oxford: Oxford University Press. 1999.

\*Sala-i-Martin, Xavier (2006). “The World Distribution of Income: Falling Poverty and ... Convergence, Period.” *Quarterly Journal of Economics*, 121(2), 351-397.

## 3. Economic Growth and Development

[Tools: Economic growth theory; Ordinary least squares (OLS) regression]

Ray, Chapter 3 (“Economic Growth”), pp. 47-90.

Easterly, Chapter 3 (“Solow’s Surprise: Investment is Not the Key to Growth”), pp. 47-69.

Besley, Timothy, and Robin Burgess (2003). “Halving Global Poverty”, Journal of Economic Perspectives, 17(3), pp. 3-22.

\*Meier, Gerald M., and James E. Rauch. (2005). “Appendix: How to Read a Regression Table”, *Leading Issues in Economic Development, Eighth Edition*, pp. 633-638.

\*Ray, Appendix 2 (“Elementary Statistical Methods”), pp. 777-804.

## 4. Education and Household Decision-Making

[Tools: Partial equilibrium analysis; Randomized evaluation]

Banerjee and Duflo, Chapter 4 (“Top of the Class”), pp. 71-101.

Easterly, Chapter 4 (“Education for What?”), pp.71-85.

Bobonis, Gustavo, and Frederico Finan. (2008). “Neighborhood Peer Effects in Secondary School Enrollment Decisions.” Review of Economics and Statistics, 91(4), 695-716.

\*The Economist. 2002. “Education in Latin America: Cramming them in.” 363(8272), p. 63 (May 11). <http://proquest.umi.com/pqdlink?did=119607460&sid=1&Fmt=3&clientId=12520&RQT=309&VName=PQD>

\*The Economist. 2005. “Poverty in Latin America: New thinking about an old problem.” 376(8444), p. 58 (September 17). <http://proquest.umi.com/pqdlink?did=899363031&sid=2&Fmt=3&clientId=12520&RQT=309&VName=PQD>

## 5. Household Decision-Making: Health and the Family

[Tools: Partial equilibrium analysis; Randomized evaluation]

Banerjee and Duflo, Chapter 3 (“Low-Hanging Fruit for Better (Global) Health”), pp. 41-70.

Duflo, Esther (2005). “Gender Equality and Development”, unpublished working paper, MIT.

\*Miguel, Edward, and Michael Kremer (2004). "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities." *Econometrica*, 72(1), 159-217.

## 6. Credit

[Tools: Principal-agent theory; Elementary game theory]

Banerjee and Duflo. Chapter 6 ("Barefoot Hedge-Fund Managers") and Chapter 7 ("The Men from Kabul and the Eunuchs from India: The (Not So) Simple Economics of Lending to the Poor"), pp. 133-155, 157-181.

Ray, Chapter 14.3 ("Theories of informal credit markets"), Chapter 14.5.2 ("Microfinance"), pp. 420-445, 543-561, 578-584.

\*Banerjee, Abhijit V., and Esther Duflo (2010). "Giving Credit Where It Is Due." *Journal of Economic Perspectives*, 24(3), 61-80.

\*de Mel, Suresh, David McKenzie, and Christopher Woodruff (2008). "Returns to Capital in Microenterprises: Evidence from a Field Experiment", *Quarterly Journal of Economics*, 123(4), 1329-72.

\*Karlan, Dean, and Jonathan Zinman (2009). "Observing Unobservables: Identifying Information Assymetries with a Consumer Credit Field Experiment." *Econometrica*, 77(6), 1993-2008.

## 7. Inequality and Development: Economic and Political Interconnections

Ray, Chapter 7 ("Inequality and Development: Interconnections"), pp. 197-241.

Parker, John. 2009. "Notions of shopkeepers: The new middle classes in emerging markets." *The Economist* Vol. 390, Iss. 8618 (February 14<sup>th</sup>).  
<http://proquest.umi.com/pqdweb?did=1646559341&sid=1&Fmt=3&clientId=12520&RQT=309&VName=PQD>

\*Banerjee, Abhijit, and Esther Duflo (2003). "Inequality and Growth: What Can the Data Say?", *Journal of Economic Growth*, 8(3), 267-299.

\*Ray, Debraj (2010). "Uneven Growth: A Framework for Research in Development Economics." *Journal of Economic Perspectives*, 24(3), 45-60.

## 8. The Role(s) of the State (Fixing Market Failures... and Government Failure)

[Tools: Political agency theory; Elementary game theory]

Banerjee and Duflo, Chapter 10 ("Policies, Politics"), pp. 235-265

Besley, Timothy. 2006. Chapter 3 ("Political Agency and Accountability") in *Principled Agents? The Political Economy of Good Government*. Oxford: Oxford University Press.

Ferraz, Claudio, and Frederico Finan. (2008). "Exposing Corrupt Politicians: The Effect of Brazil's Publicly Released Audits on Electoral Outcomes." *Quarterly Journal of Economics*, 123(2), 703-745.

\*Acemoglu, Daron, et al (2008). "Income and Democracy." *American Economic Review*, 98(3), 808-842.

\*Besley, Timothy. 2006. Chapter 1 ("Competing Views of Government") in *Principled Agents? The Political Economy of Good Government*. Oxford: Oxford University Press.

\*Svensson, Jakob (2005). "Eight Questions about Corruption", Journal of Economic Perspectives, 19(3): 19-42.

\*Ray, Appendix 1 ("Elementary Game Theory"), pp. 757-775.

## **9. International Trade and Trade Policy**

[Tools: Theoretical application - General equilibrium and political economy]

Feenstra, Robert C., and Alan M. Taylor Smith, Chapter 4 ("Trade and Resources: The Heckscher-Ohlin Model") in International Economics. New York, NY: Worth Publishers.

Ray, Chapter 17 ("Trade Policy"), pp. 647-705.

Todaro, Michael, and Stephen C. Smith, Chapter 4 ("Underdevelopment as a Coordination Failure"), in Economic Development. Boston, MA: Addison-Wesley. pp. 145-166.

Schott, Jeffrey (2003). "Unlocking the benefits of world trade." The Economist, 369(8348), p. 85 (November 1).

<http://proquest.umi.com/pqdlink?did=436467631&sid=5&Fmt=3&clientId=12520&RQT=309&VName=PQD>

Rodrik, Dani (2001). "Trading in Illusions." Foreign Policy, March/April, pp. 55-62.

Bates, Robert (1981). *Markets and States in Tropical Africa*, Univ. of California Press: Chapters 1, 2

\*Acemoglu, Daron (2010). "Theory, General Equilibrium, and Political Economy in Development Economics." Journal of Economic Perspectives, 24(3), 17-32.

## **10. The Foreign Aid Debate**

Easterly, Chapter 6 ("The Loans That Were, the Growth That Wasn't."), pp. 101-121

Sachs, Jeffrey D. (2005). "The Development Challenge", Foreign Affairs, 84(2), 78-90.

Sanchez, Pedro, et al (Sachs, Jeffrey D.) (2007). "The African Millenium Villages." PNAS, 104(43), 16775-16780.

\*Leonard, David K. and Scott Strauss (2003). "Chapter 2: Debt and Aid: Righting the Incentives", in *Africa's Stalled Development: International Causes and Cures*. Lynne Rienner Press. pp. 21-35.

## **11. Institutions, State Building, and History**

Acemoglu, Daron (2003). "Root Causes: A historical approach to assessing the role of institutions in economic development", Finance and Development, 27-30.

Acemoglu, Daron, Simon Johnson, and James Robinson (2001). "The Colonial Origins of Comparative Development; An Empirical Investigation." American Economic Review, 91(5), 1369-1401.

Sachs, Jeffrey (2003). "Institutions Matter, but not for Everything", Finance and Development, 38-41.

Engerman, Stanley L. and Kenneth L. Sokoloff (2000). "Institutions, Factor Endowments, and Paths of Development in the New World", Journal of Economic Perspectives, 14(3), pp. 217-232.



<b>ECO 324 Lecture Plan</b>			
2011 - 2012 Academic Year			
Fall Term			
<i>Lecture #</i>	<i>Date</i>	<i>Content</i>	<i>Associated Tutorial</i>
1	12 September	Introduction - Economic Development	
2	19 September	Social Welfare & Development	
3	26 September	Economic Growth	Regression Analysis (Friday - 23 Sept)
4	3 October	Growth, S. Welfare & Development	
	10 October	THANKSGIVING	
5	17 October	Education	
6	24 October	Education (HH Decision-Making)	
7	31 October	Education (Program Evaluation)	Randomized Evaluation (F - 28 Oct)
	7 November	FALL BREAK	
8	14 November	Midterm 1	
9	21 November	Health (HH Decision-Making)	
10	28 November	Gender and the Family	
11	6 December	Credit	Game Theory (Friday - 2 December)
12	7 December	Credit	
<b>ECO 324 Lecture Plan</b>			
2011 - 2012 Academic Year			
Winter Term			
<i>Lecture #</i>	<i>Date</i>	<i>Content</i>	<i>Associated Tutorial</i>
13 (1)	9 January	Inequality	
14 (2)	16 January	Inequality & Political Economy	
15 (3)	23 January	Government Responsiveness & Accountability	
16 (4)	30 January	Government Responsiveness & Accountability	
17 (5)	6 February	Midterm 2	
18 (6)	13 February	International Trade Theories	
19 (7)	20 February	READING WEEK	
20 (8)	27 February	International Trade Policy	
21 (9)	5 March	Agricultural Policy	
22 (10)	12 March	Foreign Aid Debate	
23 (11)	19 March	Institutions, State Building, and History	
24 (12)	26 March	Summary and Concluding Thoughts	