While some countries have achieved unprecedented rates of economic growth in the past half century, other countries have experienced set-backs. For those that have seen rapid growth, economic changes have not always translated into proportional social changes – and sometimes rapid social changes have occurred in the absence of economic growth.

This course takes up issues of economic growth and social change in a comparative perspective. The course begins by reviewing the relationships between poverty, inequality, and economic growth. Attention then turns to the role of markets, with a focus on local financial markets. In the second part of the semester, attention turns to policy interventions to improve education, confront rapid population growth, reduce the burden of disease, and confront corruption.

Required and Supplemental Texts

We will use the following text:
Julie Schaffner. (Work in Progress.) *Development Economics: Theory, Empirical Research and Policy Analysis* (to be made available via the course web site).

These are supplemental readings that provide background, context, or depth:

Beatriz Armendáriz and Jonathan Morduch, *The Economics of Microfinance*, MIT Press, 2005. Several chapters will be used.


The texts will be supplemented by additional readings, available via the course web site or from the library.
Course Requirements
The course requirements are a term paper, a mid-term examination, a final examination, and class participation. Grades will be calculated according to:

- Class Participation: 20%
- Problem Sets: 2 x 5% = 10%
- Mid-Term Exam (in class): 30%
- Final Examination (take home): 40%

Class Participation
Students are encouraged to actively engage with the course materials. To that end, every class will include opportunities for class discussion. Some of these will be discussions that arise spontaneously; others will be specific discussion questions that I pose to the class during or in advance of the lecture; and in some cases I could ask a class member to prepare a brief discussion on a particular topic. Students are strongly encouraged to ask and answer questions. If I haven't heard from you in a while, I might call on you in class. Students are invaluable resources for each other and provide insights that go far beyond what this one professor can provide. Students will be graded on their participation; this reflects not just the frequency of class contributions, but also their quality, relevance, precision, and originality.

Expectations
Preparation before class: come prepared for each class having read the assigned material carefully.

Absenteeism, punctuality, and in-class conduct: You are expected to attend all classes, and arrive on time. Systematic tardiness, disruptive behavior (including side conversations and use of your cell phone) will negatively impact your class participation grade.

Laptops and other technologies: To make the classroom environment as engaging as possible for everyone, I ask that you refrain from using laptops, cell phones, tablet computers, and the like during class. I will post my slides after each class, allowing you to focus on and participate in the class discussion.
Schedule

Lecture 2. 14 September: Foreign Aid.
Lecture 4. 28 September: Insurance: Coping with risk. Safety nets. (Evening section combined with afternoon)
Lecture 6. 12 October: Microfinance: a new policy paradigm?
Lecture 7. 19 October: Saving and asset-building

* 26 October: Mid-term exam (in class)

Lecture 8. 2 November: Child labor
Lecture 9. 9 November: Gender and the intra-household allocation of resources
Lecture 10. 16 November: Population and growth
Lecture 12. 30 November: Health
Lecture 13. 7 December: Education
Lecture 14. Extra topic: Corruption
Lecture 15. Extra topic: Social Business

* 7 December: Final exam (take-home) assigned.
* 7 December: Term paper due.
* 8 December: Final exam (take-home) due.
Readings

1. Introduction to theories of development. Global trends and the scope of challenges.
Development Economics is a relatively young field, arising just after World War II, as many colonies were gaining independence from Europe. We begin by setting out early debates and the current state of the world.

* Schaffner. Chapter 1 – Introduction. [See pp. 1-7 for data on the scope of challenges. The balance of the chapter describes the definition of development and provides an overview of the UN Millennium Development Goals.]


Millenium Development Goals. See www.developmentgoals.org

2. Economic Growth and Foreign Aid
Why do some countries grow richer while others don’t? Historically, patterns of economic growth have been driven by much more than just levels of investments and human resources. Recent evidence shows the roles of legal systems, political institutions, trade and tax policy, and geography, among other forces.

*Banjeree and Duflo, Poor Economics, Chapter 1.

* Schaffner. Chapter 3 – Growth. The first part of the chapter (pp. 1-8) is the key focus. It discusses “what is growth,” “how do we measure growth,” and gives facts on growth (e.g. “the rule of 72”). The rest of the chapter describes sources of growth and production functions, providing useful background.

* Schaffner, Chapter 4 – Theories of economic growth. The chapter gives a good introduction to the theory of economic growth. We’ll discuss, in particular, the Harrod-Domar model (pp. 4-7). Skim the material up to pp. 26-29 on poverty traps, which provides a transition into the next class

William Easterly, “The Quest for Growth: How we wandered the tropics trying to figure out how to make poor countries rich.”


The blackboard site has additional readings on aid, some critical of Easterly’s position, some supportive. Also see the Sachs-Easterly debate in The Washington Post.
3. **Defining poverty and inequality. Relationships between poverty, inequality and economic growth.**

Before considering the relationship between economic growth and poverty, we need to be clearer about measurement issues. There is no “perfect” way to measure poverty and inequality, but there is consensus about key principles. The most appropriate method will often depend on the questions that we are asking. *Portfolios of the Poor* yields quite different answers about what it means to be poor.

**Measuring poverty**


Daryl Collins, Jonathan Morduch, Stuart Rutherford, Orlanda Ruthven. *Portfolios of the Poor: How the World’s Poor Live on $2 a Day*. Chapter 1

Schaffner. Pages 1-18, Chapter 5 – Poverty, inequality and vulnerability. The first half (to page 18) gives another account of material covered by Morduch’s UN volume chapters.

**Poverty and growth**

Does economic growth comes at the expense of the poor? How does economic growth affect poverty and inequality? How can patterns of inequality affect levels of growth? The World Bank’s *World Development Report* highlights the translation of debate into action, but *The Economist* faults it for papering over Dollar’s and Kraay’s findings.


Schaffner. Pages 22-30, Chapter 5 – Poverty, inequality and vulnerability. This reading nicely covers inequality, poverty, and growth.

**Recommended**


4. **Coping with risk. Safety nets.**
Is there a role for the government in supporting these informal coping mechanisms? Can informal insurance effectively patch the safety net? Some argue that the lack of good ways to save and insure are as critical as difficulties in borrowing. These papers take up debates and describe constraints and opportunities.


5. **Access to financial services**
Lack of insurance is part of a broader lack of access to financial services. This section shows how informational problems limit the scope of credit markets and restrict the role that the price mechanism plays to ration demand. This provides a framework with which to reevaluate standard policy prescriptions.

* Beatriz Armendáriz and Jonathan Morduch (2003), *The Economics of Microfinance*: Chapter 1: “Rethinking banking”
Chapter 2: “Why intervene in credit markets?”


6. **Microfinance**
The root of credit market failures is lack of collateral. But new institutions like Bangladesh’s Grameen Bank and Bolivia’s BancoSol have shown that it is possible to secure high rates of repayment while lending to poor households. The key is a series of new mechanisms, most famously “group-lending” with joint liability. Yunus describes the early experience with Grameen, and Morduch’s papers describe a range of other programs, as well as emerging opportunities and tensions in the movement.


* Beatriz Armendáriz and Jonathan Morduch (2003), *The Economics of Microfinance*: Chapter 4: “Group lending”
Chapter 5: “Beyond group lending”
Chapter 7: “Gender”
Chapter 9: “Subsidy and sustainability”


Freedom from Hunger: [www.freefromhunger.org](http://www.freefromhunger.org)
Pro Mujer: [www.promujer.org](http://www.promujer.org)
ACCION International: [www.accion.org](http://www.accion.org)
Consultative Group to Assist the Poorest: www.cgap.org


Morduch, Jonathan, “Does Microfinance Really Help the Poor?”
→http://tinyurl.com/ygdbafz


Aportela, Fernando (1998) 'The effects of financial access on savings by low-income people.' Mimeo, MIT
→http://www.lacea.org/meeting2000/FernandoAportela.pdf

7. Saving and Asset Accumulation
Households use a great variety of strategies to cope with misfortune and build assets for the future. Some are very effective, while others are less so – and none are costless.

*Banjeree and Duflo, Poor Economics, Chapter 8.

* Beatriz Armendáriz and Jonathan Morduch (2003), The Economics of Microfinance: Chapter 6: “Saving and insurance”
8. Child Labor

In the public discourse, child labor is usually viewed as an unambiguous negative, "a problem". How do economists think about this phenomenon? As we discuss, they view it first and foremost as the outgrowth of poverty, but also allow for the possibility that it is due to other real-world institutional, contextual, or cultural factors. Each of these causes has its own implications for how to deal with child labor.


Beegle, Kathleen, Rajeev Dehejia, and Roberta Gatti, “Why Should We Care About Child Labor? The Returns to Schooling vs. the Returns to Experience in Vietnam”.


Mid-term exam (In class)
9. Gender and the intra-household allocation of resources
*Schaffner. Chapter 7 – Households. The chapter covers the debate between unitary and non-unitary theories, and it touches on occupational choice and gender. See in particular the discussion of how unitary theories address gender (pp. 22-27) and how non-unitary theories address gender (pp. 29-32).


Beatriz Armendáriz and Jonathan Morduch (2003), The Economics of Microfinance: Chapter 7: “Gender”

10. Population growth and the demographic transition
Population growth is one of the classic "problems" of development economics. But to what extent is it a problem? Does population growth detract from the per capita growth of the economy?

*Banjeree and Duflo, Poor Economics, Chapter 5.


The Population Council: www.popcouncil.org/
11. Fertility
More children means more mouths to feed, less resources per child, and worse outcomes for each child. True or false? The answers aren't obvious, but we discuss this along policies that can be used to influence individuals' fertility decisions.


Cohen, Alma, Rajeev Dehejia, and Dmitri Romanov, "Financial Incentives and Fertility," manuscript.


12. Health

Direct health interventions have historically been viewed as one of the most direct development policy interventions. Over time, these had fallen out of favor and been supplanted by policies intended to foster human development through economic development. Over the last decade the tide has turned, and health interventions are again being explored as a direct means of improving human welfare.


*Banerjee and Duflo, Poor Economics, Chapters 2 and 3.


13. Education

Macro theory views education as one of the fundamental drivers of economic growth. In this lecture we discuss the micro evidence: what is the problem with education in developing countries? How can it be fixed?

*Banerjee and Duflo, Poor Economics, Chapter 4.


In discussing evaluation methods, it may also be helpful to read the chapter on impact measurement in Armendáriz and Morduch, *The Economics of Microfinance*.


14. Corruption
Corruption and underdevelopment are so tightly intertwined that it is difficult to know which is the cause and which the effect. A series of new interventions have recently tried to understand whether corruptions directly affects growth and whether there are policy interventions that can reduce corruption and hence improve the effectiveness of institutions and interventions in developing countries.

*Banjeree and Duflo, Poor Economics, Chapter 10.


15. Social Business
The basic premise that the private pursuit of profit can bring about socially beneficial outcomes is central to economic thinking. But recently this idea has been given a twist. We have enough experience to suggest that market forces don't always lead to social good, perhaps because of distortions to the market or perhaps more simply because of human nature. Recently economics, entrepreneurs, and development practitioners have been exploring the idea of business that explicitly pursue the twin goals of making a profit and doing good.


16. Financial Development and Growth
Is the financial system a driver of economic growth and poverty reduction? Or is it instead a byproduct of an underlying growth process. As with corruption, these two are so closely intertwined that it seems impossible to determine which drives which. It is important though because financial development can quickly be jumpstarted through policy changes, and if this spurs growth then it is a valuable policy leaver. Some recent research has tried to resolve these issues.


Aportela, Fernando (1998) 'The effects of financial access on savings by low-income people.' Mimeo, MIT
→http://www.lacea.org/meeting2000/FernandoAportela.pdf

→http://faculty.chicagobooth.edu/luigi.zingales/research/papers/localdev.pdf


