International economic development

PADM-GP 2203  
Spring 2016  
NYU Wagner Graduate School of Public Service  
New York University  

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Office time: 5 - 6 p.m. Wednesday  

Section 1: Wed. 11:00 – 12: 40pm, Bobst Room LL150  
Section 2: Wed. 6:45 - 8:25 pm, Global Center for Academic & Spiritual Life, room 275  

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How can the economies of the world become richer? Fairer? More open to opportunity?  

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. In that context, attention then turns to the role of markets, with a focus on local financial markets. In the second part of the semester, we turn to policy interventions to improve education, confront rapid population growth, reduce the burden of disease, and confront corruption.  

We will use the following texts:  


Plus additional readings.
Course Requirements

The course requirements are a mid-term examination, a final examination, and two problem sets. Grades will be calculated according to:

- Class Participation: 10%
- Problem sets: 10%
- Mid-Term Exam: 35%
- Final Examination: 45%

NYU Wagner Policies on Academic Honesty and Grading

This course will abide by the NYU Wagner School general policy guidelines on academic honesty and grading (including incomplete grades). It is each student's personal responsibility to become familiar with these policies.

Please see the NYU Wagner website for information on academic policies and procedures, including the academic code and grading.

Academic Policies and Procedures: [http://wagner.nyu.edu/students/policies](http://wagner.nyu.edu/students/policies)
Academic Code: [http://wagner.nyu.edu/students/policies/academic-code](http://wagner.nyu.edu/students/policies/academic-code)
Grading: [http://wagner.nyu.edu/students/policies/grading](http://wagner.nyu.edu/students/policies/grading)
Incomplete Grades: [http://wagner.nyu.edu/students/policies/incompletes](http://wagner.nyu.edu/students/policies/incompletes)

Late Policy

Extensions on assignments will be granted only in case of emergency or special circumstances. This policy is adopted out of respect to those who abide by deadlines despite equally demanding schedules. Assignments handed in late without authorized extensions will be penalized one-third of a grade per day.
Schedule

1. 1/27: Introduction to development economics
2. 2/3: Poverty, inequality, and economic growth
3. 2/10: Market failure: Coping with risk
4. 2/17: Responses to market failure: Informal markets and access to finance
5. 2/24: Responses to market failure: Microfinance **Problem set due**
6. 3/2: Behavioral constraints: Saving and asset-building
7. **3/9:** Mid-term exam (in class)
8. **3/16:** Spring break
9. 3/23: Foreign Aid
10. 3/30: Government failure and corruption
11. 4/6: Responses to government failure and corruption: Social business and user fees
12. 4/13: Gender and discrimination
13. 4/20: Population, the demographic transition, and norms
14. 4/27: Delivering Healthcare **Problem set due**
15. 5/4: Delivering Education. Retrospective and review

**5/11:** Final exam (in class)
Readings

> Recommended reading

►WATCH: Recommended videos

PART I. Introduction to development and the big issues
How did we come to define the “development problem” the way we do? What drives economic growth? Does foreign aid work? Can global poverty be eradicated?

1. Introduction to development economics

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 strategies and evidence on some of the current challenges and possibilities. Deaton discusses income vs. well-being.

Banerjee and Duflo, Poor Economics. Chapter 1, all.


►Watch Thomas Piketty’s TED Talk on increasing inequality:
http://www.ted.com/talks/thomas_piketty_new_thoughts_on_capital_in_the_twenty_first_century

2. 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.

Poverty and Economic Growth
Does economic growth come at the expense of the poor? How does economic growth affect poverty and inequality? How can patterns of inequality affect levels of growth?

Poverty and well-being

Portfolios of the Poor yields quite different answers about what it means to be poor. Haushofer summarizes new work on poverty and psychology.

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


Measuring poverty


PART II. Households and markets

We focus on financial markets first. It gives a chance to explore the sources of market failure. Rather than stopping with diagnosis, we look at proposed solutions and how to evaluate them. The focus gives us an introduction to

- Market failure (moral hazard, adverse selection)
- Behavioral economics (present bias, commitment, salience)
- Risk and risk aversion
- Household decision-making
- Informal and formal institutions
- Impact evaluation and the use of randomized controlled trials
- Incentives, especially as they are shaped by contracts and prices

3. Market Failure: Coping with risk

Can informal insurance effectively patch the safety net? Can private insurance be viable in poorer communities? Some argue that the lack of good ways to save and insure are as critical as difficulties in borrowing.


► Listen Adam Davidson interviews Daryl Collins and Jonathan Morduch about Portfolios of the Poor. Planet Money Podcast. (26 minutes)
http://www.npr.org/blogs/money/2009/07/hear_making_a_life_on_2_a_day.html

Banerjee and Duflo, Poor Economics. Chapter 6.


►Watch Moral Hazard and Adverse Selection – the animated videos! (3.5 minutes each)


►Watch Harvard Business School’s Shawn Cole describe the research on rainfall insurance:
https://www.youtube.com/watch?v=Cy5Mq8JKMvK

4. Responses to market failure: Informal finance and 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.


Banerjee and Duflo, Poor Economics. Chapter 7.

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


5. Responses to market failure: 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.

►Watch Muhammad Yunus documentary (10 minutes)
http://www.nobelprize.org/mediaplayer/index.php?id=146

Beatriz Armendáriz and Jonathan Morduch (2010), *The Economics of Microfinance*:
- Chapter 4: “Group lending”
- Chapter 5: “Beyond group lending”
- Chapter 7: “Gender”
- Chapter 10: “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](http://www.cgap.org)

6. **Behavioral Constraints: 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.

► **Watch** Saving in groups and out – the animated videos! (3.5 minutes each)
  http://www.financialaccess.org/blog/2014/10/financial-access-101-intro-savings-groups
  http://www.financialaccess.org/blog/2015/02/financial-access-101-savings-outside-groups

Beatriz Armendáriz and Jonathan Morduch (2010), *The Economics of Microfinance*: Chapter 6: “Saving and insurance”

► **Watch** Yale’s Dean Karlan describes why commitments matter to saving (9 minutes)
  http://www.financialaccess.org/blog/2013/10/fai-video-dean-karlan-discusses-commitment-savings-research

► **Watch** Harvard’s Nava Ashraf describe the challenge of holding on to your money (14 minutes)

► **Watch** Harvard’s Nava Ashraf describe behavior change in saving (9 minutes)


► **Watch** Stanford’s Pascaline Dupas describe her research on saving (5.5 minutes)
  http://www.financialaccess.org/blog/2013/03/fai-video-conversation-pascaline-dupas

Banerjee and Duflo, *Poor Economics*. Chapter 8.

For next steps: ► **Watch** this 2-minute video on M-Pesa’s mobile banking success in Kenya:
  https://www.youtube.com/watch?v=cnzyn1SBJqw

7. **Mid-term exam (In class)**

**PART 3. Getting things done**

With an understanding of financial markets, we push forward to explore the organizations that get things done, and the challenges (corruption) that can constrain action.
8. 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.

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


The class website has additional readings on aid, some critical of Easterly’s position, some supportive.

► Watch Esther Duflo’s TED Talk on foreign aid and evaluation: https://www.youtube.com/watch?v=0zvrGiPKVcs#t=18

9. Government Failure and Corruption

► Watch Ngozi Okonjo-Iweala’s TED Talk: http://www.ted.com/talks/ngozi_okonjo_iweala_on_doing_business_in_africa


10. Responses to government and market failure: Social business and user fees

Many argue that the solution for service delivery is to tap the private sector, or at least to
incorporate ideas from the market into nonprofit activities. Microfinance is a leading edge for that push, but the microfinance story is more complicated than it might seem at first. Two healthcare studies are discussed, in which the evidence for charging user fees is weak.

► Watch Dan Palotta argue that the way we think about charity is all wrong. (TED Talk): https://www.youtube.com/watch?v=bfAzi6D5FpM

► Watch Acumen Fund’s Jacqueline Novogratz talk about impact investing (TED Talk): http://www.ted.com/talks/jacqueline_novogratz_invests_in_ending_poverty


► Watch Berkeley’s Ted Miguel on Worms (3:52 minutes): https://www.youtube.com/watch?v=byhCzOIWw0o

► Watch Deworm the World: A Call to Action (9:04 minutes) https://www.youtube.com/watch?v=L_hcVNuclK8


PART 4. Central topics
We’ve been building an understanding of markets and organizations. Now we turn to some of the most important forces and debates within development: gender, population, healthcare delivery, and education delivery. To stay focused, we keep the attention on how to translate ideas into action, the use of evaluation methods, and new ideas that are both conceptually interesting and that work in practice.

11. Gender and discrimination


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

### 12. Population growth, the demographic transition, and social norms


Banerjee and Duflo, *Poor Economics*. Chapter 5.


► Watch Eliana La Ferrara discuss the paper on TEDx: [https://www.youtube.com/watch?v=0mCv5U5LRG4](https://www.youtube.com/watch?v=0mCv5U5LRG4)

► The Population Council: [www.popcouncil.org/](http://www.popcouncil.org/)

### 13. Delivering Healthcare

► Watch Sendhil Mullainathan’s TED Talk on health and nudges: [http://www.ted.com/talks/sendhil_mullainathan](http://www.ted.com/talks/sendhil_mullainathan)

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


14. Delivering Education

► Watch video on Bridge International Academies. A social enterprise approach (27 minutes): https://www.youtube.com/watch?v=BHfT2TLe5X8

Banerjee and Duflo, Poor Economics. Chapter 4.


