

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:

Daryl Collins, Jonathan Morduch, Stuart Rutherford, Orlanda Ruthven. 2009. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Princeton University Press.

Abhijit Banerjee and Esther Duflo, *Poor Economics*. PublicAffairs, 2011.

Beatriz Armendáriz and Jonathan Morduch. 2010. *The Economics of Microfinance*, 2nd edition. MIT Press.

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>

Academic Code: <http://wagner.nyu.edu/students/policies/academic-code>

Grading: <http://wagner.nyu.edu/students/policies/grading>

Incomplete Grades: <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)**
3/16: Spring break
 8. 3/23: Foreign Aid
 9. 3/30: Government failure and corruption
 10. 4/6: Responses to government failure and corruption: Social business and user fees
 11. 4/13 : Gender and discrimination
 12. 4/20: Population, the demographic transition, and norms
 13. 4/27: Delivering Healthcare **Problem set due**
 14. 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.

Angus Deaton, *The Great Escape*, Princeton U. Press, 2013. Chapter 1, especially 16-22.

Martin Kirk, Jason Hickel, and Joe Brewer. 2015. “Using Design Thinking to Eradicate Poverty Creation.” *Stanford Social Innovation Review* September.

Daron Acemoglu, 2012. “The World Our Grandchildren Will Inherit.” In Ignacio Palacios-Huerta, ed., *Economic Possibilities for Our Grandchildren*. Cambridge, MA: MIT Press. *Pages 1-13 required.*

► **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?

David Dollar, Tatjana Kleineberg, and Aart Kraay. 2016. “Growth still is good for the poor,” *European Economic Review* 81 (January): 68-85.

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

Johannes Haushofer. 2014. "The Price of Poverty: Psychology and the Cycle of Need," *Foreign Affairs*, July 15, 2014

Measuring poverty

Jonathan Morduch, "Concepts of Poverty," chapter 2 of *United Nations Handbook of Poverty Statistics* project. New York: United Nations.

The Economist. 2015. "The tricky work of measuring falling global Poverty." October 12, 2015.

> Jonathan Morduch, "Poverty Measures," chapter 3 of *United Nations Handbook of Poverty Statistics* project. New York: United Nations.

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.

Daryl Collins, Jonathan Morduch, Stuart Rutherford, Orlanda Ruthven. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Chapter 3.

► **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.

Jonathan Morduch (1998), "Between the State and the Market: Can Informal Insurance Patch the Safety Net?" *World Bank Research Observer* 14(2), August, 187- 202.

Jonathan Morduch, "Microinsurance: The Next Revolution?" in *Understanding Poverty*, edited by Abhijit Banerjee, Roland Benabou, and Dilip Mookherjee. Oxford University Press, 2006.

► **Watch** Moral Hazard and Adverse Selection – the animated videos! (3.5 minutes each)
<http://www.financialaccess.org/blog/2013/08/fai-101-moral-hazard-and-microinsurance-video>
<http://www.financialaccess.org/blog/2013/08/fai-101-adverse-selection-and-microinsurance>

Shawn Cole, Xavier Giné, Jeremy Tobacman, Petia Topalova, Robert Townsend, and James Vickery. 2013. "Barriers to Household Risk Management: Evidence from India." *American Economic Journal: Applied Economics* 5 (1): 104-135.

► **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.

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

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?"

> Rutherford, Stuart (1998), *The Poor and their Money*. Delhi: Oxford University Press, chapters 1 and 2.

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>

[Or ► **Watch** Muhammad Yunus on the Daily Show...content starts at 2 minutes]
<http://thedailyshow.cc.com/videos/tw49a0/muhammad-yunus>

► **Watch** Stuart Rutherford on microfinance and talking to clients (9 minutes):
https://www.youtube.com/watch?v=Q_xd5vKgC3o

Muhammad Yunus (1995), *The Grameen Bank: Experiences and Reflections*. Dhaka: Grameen Bank.

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"

Jonathan Morduch (2013), "How Microfinance Really Works. *Milken Institute Review*.

► **Watch** Harvard University's Rohini Pande describe new ways of thinking about microcredit (10 minutes):
<http://www.financialaccess.org/blog/2013/04/conversation-economist-rohini-pande>

CGAP, "Microcredit Interest Rates," *Occasional Paper* Number 1, August 1996 [Extract].

Robert Cull, Asli Demirgüç-Kunt, and Jonathan Morduch. 2009. "Microfinance Meets the Market." *Journal of Economic Perspectives* 23(1), Winter: 167-192.

Daryl Collins, Jonathan Morduch, Stuart Rutherford, Orlanda Ruthven. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Chapter 6.

Matt Mossman. 2015. "Moving Beyond Microcredit." *The New Yorker*, November 2, 2015.

> Banerjee and Duflo, *Poor Economics*. Chapter 9.

> Jonathan Morduch (2000), "The Microfinance Schism," *World Development*, April.

> Freedom from Hunger: www.freefromhunger.org

> Pro Mujer: www.promujer.org

> ACCION International: www.accion.org

> Consultative Group to Assist the Poorest: 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.

Daryl Collins, Jonathan Morduch, Stuart Rutherford, Orlanda Ruthven. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Chapter 4.

- ▶ **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/2014/10/financial-access-101-why-savings-groups-work>
<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)
<http://www.financialaccess.org/blog/2013/09/fai-video-conversation-nava-ashraf-part-2>
- ▶ **Watch** Harvard’s Nava Ashraf describe behavior change in saving (9 minutes)
<http://www.financialaccess.org/blog/2013/09/fai-video-conversation-nava-ashraf-part-3>

Pascaline Dupas and Jonathan Robinson. 2013. “Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya.” *American Economic Journal: Applied Economics* 5(1), pp. 163-92, January 2013

Pascaline Dupas and Jonathan Robinson. 2011. “Why Don’t the Poor Save More? Evidence from Health Savings Experiments.” *American Economic Review*.

- ▶ **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,"

William Easterly, 2003. "Can Foreign Aid Buy Growth?" *Journal of Economic Perspectives* 17 (3), Summer: 23–4.

Michael Clemens, Steven Radelet, Rikhil Bhavani, and Samuel Bazzi. 2012. "Counting Chickens when they Hatch: Timing and the Effects of Aid on Growth." *Economic Journal* 122, June: 590–617.

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

Banerjee and Duflo, *Poor Economics*. Chapter 10.

Jakob Svensson. 2005. "Eight Questions About Corruption." *Journal of Economic Perspectives* 19 (3).

Bertrand, Marianne, Simeon Djankov, Rema Hanna and Sendhil Mullainathan. 2007. "Obtaining a Driving License in India: An Experimental Approach to Studying Corruption." *Quarterly Journal of Economics*, November.

Olken, Ben, 2007. "Monitoring Corruption: Evidence from a Field Experiment in Indonesia", *Journal of Political Economy* 115 (2): 200-249.

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

Werker, Eric, and Faisal Z. Ahmed. 2008. "What Do Nongovernmental Organizations Do?" *Journal of Economic Perspectives*, 22(2): 73–92.

Jonathan Conning and Jonathan Morduch. 2011. "Microfinance and Social Investment" *Annual Review of Financial Economics*, vol. 3, ed. Robert Merton and Andrew Lo: 407-434.

Kremer, Michael and Edward Miguel. 2007. "The Illusion of Sustainability." *Quarterly Journal of Economics*, August: 1007-1065.

► **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_hcVNucfK8

Jessica Cohen and Pascaline Dupas. 2010. "Free Distribution or Cost-Sharing? Evidence from a Randomized Malaria Prevention Experiment." *Quarterly Journal of Economics* CXXV (1), February.

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

Esther Duflo, "Gender Equality in Development." MIT Abdul Latif Jameel Poverty Action Lab.

More Duflo: <http://www.theatlantic.com/sexes/archive/2012/12/the-challenge-of-closing-the-gender-gap-in-developing-countries/266617/>

Jensen, Robert and Emily Oster (2009). "The Power of TV: Cable Television and Women's Status in India," *Quarterly Journal of Economics*, 124(3), p. 1057-1094.

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

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

► **Watch** Hans Rosling’s TED Talk on Global Population (10 minutes):
http://www.ted.com/talks/hans_rosling_on_global_population_growth

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

Grant Miller. 2010. “Contraception as Development? New Evidence from Family Planning in Colombia.” *Economic Journal*, Volume 120, Issue 545, pages 709–736, June.

La Ferrara, Eliana, Alberto Chong, and Suzanne Duryea. 2012. “Soap Operas and Fertility: Evidence from Brazil.” *American Economic Journal: Applied Economics*, 4(4): 1-31.

► **Watch** Eliana La Ferrara discuss the paper on TEDx:
<https://www.youtube.com/watch?v=0mCv5U5LRG4>

> The Population Council: www.popcouncil.org/

13. Delivering Healthcare

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

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

Jishnu Das, Jeffrey Hammer, and Kenneth Leonard. 2008. “The Quality of Medical Advice in Low-Income Countries.” *Journal of Economic Perspectives* 22 (2). Spring: 93-114.

>Deon Filmer, Jeffrey Hammer, and Lant Pritchett, “Health Policy in Poor Countries: Weak Links in the Chain,” World Bank Policy Research Working Paper 1874, January 98, pp. 1 – 63.

>Deon Filmer, Jeffrey S. Hammer, and Lant H. Pritchett (2002). “Weak Links in the Chain II: A Prescription for Health Policy in Poor Countries,” *World Bank Research Observer* 2002 17: 47-66. [<http://wbpro.oupjournals.org/cgi/reprint/17/1/47.pdf>]

>Miguel,Edward and Kremer,Michael (2004). “Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,” *Econometrica*, pp 159-217.

>Abhijit Banerjee, Angus Deaton, and Esther Duflo, 2004. “Wealth, health, and health services in rural Rajasthan,” Poverty Action Lab Paper No. 8, May. Abhijit Banerjee, Angus Deaton, and Esther Duflo. http://www.povertyactionlab.com/papers/banerjee_deaton_duflo_2.pdf

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.

Esther Duflo. "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment," *American Economic Review* 91(4), 2001, pp. 795-813

Esther Duflo, Rema Hanna, and Stephen Ryan. 2011. "Incentives Work: Getting Teachers to Come to School," *American Economic Review*.

Jensen, Robert (2010). "The (Perceived) Returns to Education and the Demand for Schooling," *Quarterly Journal of Economics*, 125(2), p. 515-548.

>Banerjee, Abhijit V., Shawn Cole, Esther Duflo, Leigh Linden "Remedying Education: Evidence from Two Randomized Experiments in India" *Quarterly Journal of Economics* 2007 122:3, 1235-1264