International economic development

Fall 2017

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

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Class time and location: Wednesdays, 4:55-6:35 pm, Waverly 431.
Recitation: Mondays, 8:45-9:45pm at 25 West 4th Street, room C-8.
Office time (Morduch): 3-4 p.m. Wednesday

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

We will investigate economic growth, poverty, inequality, and the sources of social change. 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 finance. Then we turn to interventions designed to improve education, address demographic change, reduce the burden of disease, and confront corruption.

We will use the following texts:


Recommended:

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%
- Homework: 20%
- Mid-Term Exam: 30%
- Final Examination: 40%

NYU Wagner Policies on Academic Honesty and Grading

We follow the NYU Wagner School general policy guidelines on academic honesty and grading (including incomplete grades). Each student should 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/portal/students/policies
Academic Code: http://wagner.nyu.edu/portal/students/policies/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. 9/6: Introduction to development economics. Development and inequality.
2. 9/13: Poverty and economic growth
3. 9/20: Foreign Aid
4. 9/27: Market failure: Coping with risk
5. 10/4: Responses to market failure: Informal markets and access to finance
6. 10/11: Responses to market failure: Microfinance
7. 10/18: Behavioral economics: Saving and asset-building
   **10/25:** Mid-term exam (in class)
8. 11/1: Government failure and corruption. **Problem set due**
9. 11/8: Social business: band-aid or solution?
10. 11/15: Delivering education
    **11/22:** Thanksgiving break (no class)
11. 11/29: Gender and discrimination
12. 12/6: Population, the demographic transition, and norms. **Problem set due.**
13. 12/13: Delivering Healthcare. Retrospective and review
    **12/20:** 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

The past few years have raised concerns with widening inequality – both within countries and globally. Inequalities matter in themselves, and they also tell us about how economies are evolving. We start with global inequalities and situate the course in that context. Development Economics is a relatively young field, arising just after World War II as many colonies were gaining independence from Europe. Since the early 1970s, a focus has been on extreme poverty, but progress in reducing poverty and widening inequalities are re-shaping conversations.

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, Orinda Ruthven. *Portfolios of the Poor: How the World’s Poor Live on $2 a Day*. Chapter 1


**Measuring poverty**


3. 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](https://www.youtube.com/watch?v=0zvrGiPkVcs#t=18)
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

4. 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

5. 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.


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


6. 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) 

[Or ▶ Watch Muhammad Yunus on the Daily Show…content starts at 2 minutes] 
[http://thedailyshow.cc.com/videos/tw49a0/muhammad-yunus](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](https://www.youtube.com/watch?v=Q_xd5vKgC3o)


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”


▶ Watch Harvard University’s Rohini Pande describe new ways of thinking about microcredit (10 minutes):
7. 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/2015/02/financial-access-101-savings-outside-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](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)

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=cnzyn1SBJgw

8. Mid-term exam (In class)

PART III. 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.

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.


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_hcVNucfK8


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. 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.


12. Gender and discrimination


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

13. 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/)
14. 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.


