International economic development

Spring 2018

PADM-GP 2203, Sections 001 & 002
NYU Wagner Graduate School of Public Service
New York University

Jonathan Morduch
The Puck Building, Room 3028, (212) 998-7515
jonathan.morduch@nyu.edu

Kathleen Apltauer
kwapltauer@nyu.edu

Class time and location: Wednesdays, 11:00am–12:40pm, 60 Fifth Avenue, Room C12 (Section 001); Wednesdays, 6:45-8:25pm at 12 Waverly Place, Room L120 (Section 002)

Recitation time and location: Mondays, 8:45-9:45pm (GCASL, Room 388) or Wednesdays, 8:45-9:45pm (12 Waverly Place, Room L120)

Office time (Morduch): Wednesdays 5-6pm
Office time (Apltauer): By appointment

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 (try Amazon and other places for better prices than NYU):


Course Requirements

The course requirements are a mid-term examination, a final examination, and three 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.

Learning objectives

Students will be able to...

- Synthesize complex concepts and evidence to understand the context and mechanisms of international development and poverty.
- Understand how economic principles and tools can be used to craft better solutions for individuals and communities.
- Assess the quality and reliability of evidence presented by proponents of interventions and policy, including statistical evidence.

Recitations will build skills, including comprehension of data analysis and statistics, and offer deeper exploration into issues and concepts raised during lectures.
1. 1/24: **Introduction to development economics. Development and inequality.**
   Recitation 1. (skill building) Understanding an inequality measure (GINI); Deepening comprehension of basic statistical principles.

2. 1/31: **Poverty and economic growth**
   Recitation 2. (deeper dive) How we measure poverty affects where we focus development efforts. What is poverty? How is it measured?

3. 2/7: **Foreign Aid**
   Recitation 3. (deeper dive) Theories on economic growth underlie most development efforts since World War II. How did these theories shape past interventions and focus? Where do we stand today?

4. 2/14: **Market failure: Coping with risk**
   Recitation 4. (skill building) Help with questions on Problem set 1 (attendance optional)
   [NYU is closed Monday 2/19. Both recitations will be held in the Wednesday slot.]

5. 2/21: **Responses to market failure: Informal markets and access to finance. Problem set due**
   Recitation 5. (skill building) How to read an economic paper: Just what do all those numbers in the tables mean?

6. 2/28: **Responses to market failure: Microfinance**
   Recitation 6. (skill building) Identifying impact of interventions on subgroups

7. 3/7: **Behavioral economics: Saving and asset-building**
   Recitation 7. (skill building) Help with midterm preparation

3/14: **Spring break (no class)**
3/21:  **Mid-term exam (in class)**
No recitation this week

8. 3/28:  **Government failure and corruption.**
Recitation 8. (skill building) Help with questions on problem set 2 (attendance optional)

9. 4/4:  **Social business: band-aid or solution? Problem set due**
Recitation 9. (deeper dive) Are social enterprises the tool to fill in gaps in service delivery left by markets and government. Are social enterprises a reliable choice in all settings, especially for essential services? We use delivery of education in Liberia as a case study of these questions.

10. 4/11:  **Delivering education**
Recitation 10. (deeper dive) Continued discussion of Liberia case study

11. 4/18:  **Gender and discrimination**
Recitation 11. (skill building) Help with questions on problem set 3 (attendance optional)

12. 4/25:  **Population, the demographic transition, and norms. Problem set due.**
Recitation 12. (deeper dive) Can we identify impact without an experiment? The role of data triangulation and natural experiments in building evidence.

13. 5/2:  **Delivering Healthcare. Retrospective and review**
Recitation 13. (skill building) Help with final preparation (attendance optional)

5/9:  **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 and inequality.

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 gained independence from Europe. Since the early 1970s, a focus has been on extreme poverty, but progress in reducing extreme poverty and widening inequalities are re-shaping conversations.

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

► For more on the book, extra materials and data: http://pooreconomics.com/chapters/1-think-again-again - full

Recommended:

► Listen to Banerjee on poverty and poor people (3:06 minutes): http://www.npr.org/books/authors/137891528/abhijit-banerjee

► 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

► Listen to Branko Milanovic (Graduate Center, CUNY) on global inequality. NPR Interview (11:17 minutes): http://www.marketplace.org/topics/wealth-poverty/global-gaps-income-and-wealth-inequality

► Watch PBS Animated Overview on the History of Poverty (52 minutes): http://video.pbs.org/video/2296684944/
Useful perspectives, but the narration can be a bit much...

Recitation 1: (skill building) Understanding an inequality measure (GINI); Deepening comprehension of basic statistical principles
2. Poverty and economic growth

To fully understand the relationship between economic growth and poverty, we need to be clearer about measurement. 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, and different measures lead to very different policy implications.

The Economist: "The world has made great progress in eradicating extreme poverty. But the going will be much harder from now on." March 30, 2017.

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


Recitation 2. (deeper dive) How we measure poverty affects where we focus development efforts. What is poverty? How is it measured?

Amartya Sen. Poverty & Famines, pp 1-8

Selections from *Voices of the poor: Can anyone hear us?* pp 184-188, starting with “Police Activities”; p 98 “Corruption”; pp 51-56 “Humiliation & Shame”; *Crying out for change* pp 27 “Self-Respect and Dignity”; p 189 “Respect”

*Portfolios of the poor*, pp: 205 to 210, with special attention to Figure A1.1.


> Amartya Sen. *Development as Freedom*, various readings (posted to Classes)

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.


The class website has additional readings on aid.

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

Recitation 3. (deeper dive) Theories on economic growth underlie most development efforts since World War II. How did these theories shape past interventions and focus? How do those theories stand up to data and evidence? Where do theories stand today?


Economic growth models:


Income & nutrition thresholds:
> Banerjee & Duflo Poor Economics, pp 22-40

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.


Recommended
▶️ 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)


Recommended
► Watch Harvard Business School’s Shawn Cole describe the research on rainfall insurance: https://www.youtube.com/watch?v=Cy5Mq8JKMvk

Recitation 4. (skill building) Help with questions on Problem set 1 (attendance optional)

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.


Banerjee and Duflo, Poor Economics. Chapter 7.

Beatriz Armendáriz and Jonathan Morduch (2010), The Economics of Microfinance: Chapter 1: “Rethinking banking” Chapter 2: “Why intervene in credit markets?”


Recitation 5. (skill building) How to read an economic paper: Just what do all those numbers in the tables mean?

Charles Wheelan, Naked Statistics, Chapters 8, 9 & 11.
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)
http://www.nobelprize.org/mediaplayer/index.php?id=146

[Or ► Watch Muhammad Yunus on the Daily Show (with Jon Stewart)...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


Beatriz Armendáriz and Jonathan Morduch (2010), The Economics of Microfinance:
Chapter 4: “Group lending”
Chapter 5: “Beyond group lending”
>Chapter 10: “Subsidy and sustainability


► 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


Recitation 6. (skill building) Heterogeneity of impacts. What’s really being measured?

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/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/publications-index/2015/7/15/fai-video-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=cnzyn1SBJgw](https://www.youtube.com/watch?v=cnzyn1SBJgw)

Recitation 7. (skill building) Help with midterm preparation

**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.

**8. Government Failure and Corruption**


►**Watch** Ngozi Okonjo-Iweala’s TED Talk: [http://www.ted.com/talks/ngozi_okonjo_iweala_on_doing_business_in_africa](http://www.ted.com/talks/ngozi_okonjo_iweala_on_doing_business_in_africa)

Recitation 8. (skill building) Help with questions on problem set 2 (attendance optional)

**9. 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](https://www.youtube.com/watch?v=bfAzi6D5FpM)


▶ Watch Berkeley’s Ted Miguel on Worms (3:52 minutes): [https://www.youtube.com/watch?v=byhCzOIlWw0](https://www.youtube.com/watch?v=byhCzOIlWw0)

▶ Watch Deworm the World: A Call to Action (9:04 minutes) [https://www.youtube.com/watch?v=L_hcVNucfK8](https://www.youtube.com/watch?v=L_hcVNucfK8)

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

**Recitation 9. (deeper dive)** Are social enterprises the tool to fill in gaps in service delivery left by markets and government. Are social enterprises a reliable choice in all settings, especially for essential services? We use delivery of education in Liberia as a case study of these questions.


▶ Watch George Werner, Liberian Minister of Education, explaining his support of Bridge International Academies (14 mins) [https://www.youtube.com/watch?v=6sEpdkRZg&feature=youtu.be&tl=12m1s](https://www.youtube.com/watch?v=6sEpdkRZg&feature=youtu.be&tl=12m1s)


Instructions, background documents and optional reading list on Classes.
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.

10. Delivering Education
Banerjee and Duflo, Poor Economics. Chapter 4.


Recitation 10. (deeper dive) Continued discussion of Liberia case study

11. Gender and discrimination


Beatriz Armendáriz and Jonathan Morduch (2010), The Economics of Microfinance: Chapter 7: “Gender”. Pages 219-227 only.
Recitation 11. (skill building) Help with questions on problem set 3 (attendance optional)

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)


Recitation 12. (deeper dive) How to read an economic paper II: Can we identify impact without an experiment? The role of data triangulation and natural experiments in building evidence.


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.


Recitation 13. (skill building) Help with final preparation

Final exam (In class)