

Department of Food and Resource Economics and
Center for Latin American Studies
University of Florida, Gainesville
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McCarty Hall B, G087

AEB 6645
Fall 2007

Economic Development

Tuesdays, 9:35-10:25 10:40-11:30 & Thursdays, 10:40-11:30 in WEIM1092
Office hours - Thurs: 11:30-12:30p.m., or by appt.

Course Description

The course begins by looking at issues in the measurement of poverty, inequality, and vulnerability. These concepts are, arguably, the basis of all development economics and so deserve proper attention. Casual observation—as well as some systematic econometric work—suggests that inequality may affect poverty and economic growth. Interestingly, the idea that economic performance might be sensitive to the distribution of endowments goes back to old theory of agrarian economy. The Russian economist A.V. Chayanov argued (early in the 20th century) that farm households with distinct endowments of productive resources would use those resources in different proportions, with different factor productivities.

This course will, thus, examine modern variants of the Chayanovian argument that important household decisions in the sphere of production (and consumption) are inseparable from household wealth endowments. The course will then look more deeply into the economics of the household itself, asking if intra-household distribution similarly matters for factor use and the composition of consumption. After that we will move on to look at social interactions of households and individuals. In particular, we will study how social networks are used to learn about new technologies, share agricultural risk (with and without commitment), and find jobs. We will also study strategic interactions in the context of natural resource management and environmental conservation.

Since the core assumptions of self-interested, exogenous preferences of much of the development economics literature have been questioned, we will examine, in our last module, experimental studies that challenge these assumptions in developing countries. Additionally, we will look at studies discussing social norms and psychological dispositions extending beyond selfish motives.

Course Requirements:

1. Three class assignments (40% of grade): These are graded on a full credit, half credit, zero-credit basis, and require coherent arguments to receive full credit. Students who receive less than full credit will be given the opportunity to rewrite assignments for full credit. **Due dates will be discussed in class.**
2. Critical review and presentation (20%): A critical review of one recent class paper has to be submitted. This report should have 3-5 pages and be based on one of the papers in the syllabus which is not marked with an (R). **Please e-mail me your first, second, and third choice papers for the report by Monday.** A 20 min presentation on this paper should be given to the class. Around ten min. of the presentation should be spent explaining what the paper does. Five minutes should be spent discussing the main contributions of the paper, and the main shortcomings of the paper. The last five minutes should be spent discussing

questions which are left open for future researchers on related topics. (These numbers are all quite approximate. You may vary them as you feel comfortable.) After your presentation there will be another five minutes for discussion with everyone. You should hand in your critical review on the same day as your presentation is scheduled.

3. One class presentation (15% of grade). Students are asked to organize a presentation of one current development topic (about 20 min). A short written document will also be expected (5 pages maximum), although the grade will be primarily based on the presentation.
4. One final exam (25% of grade).

Course Outline and Readings

Although lectures may draw from any or all of these readings, you will only be required to do one reading for each class period. I will inform you which reading is required by the previous class period at the latest. I will also update the online syllabus, placing a (R) in front of the required reading. You are really required to do the readings. The readings are all quite excellent, and discussing them in class is not a substitute for reading them yourself.

INTRODUCTION: ISSUES IN GROWTH, POVERTY, INEQUALITY AND THE ENVIRONMENT

(R) Pande, R. & Udry, C. (2005), "Institutions and Development: A View from Below," Unpublished Working Paper.

(R) Bowles, S. and H. Gintis (2000). "Walrasian Economics in Retrospect," *Quarterly Journal of Economics* CXV(4): 1411-1439.

I. MEASURING AGGREGATE POVERTY, INEQUALITY AND VULNERABILITY

A. Poverty

- Sen, A. (1972), "Poverty: An Ordinal Approach to Measurement," *Econometrica* 44(2), 219-231.
- Foster, J. Greer, J. & Thorbecke, E. (1984), "A Class of Decomposable Poverty Measures," *Econometrica* 52(3), 761-766.
- (R, up through page 66) Ravallion, M. (1992), "Poverty Comparisons: A Guide to Concepts and Methods," LSMS Working Paper No. 88, The World Bank.
- Ravallion, M. (1996), "Issues in Measuring and Modelling Poverty," *Economic Journal* 106(438), 1328-43.

B. Inequality

- Dalton, H. (1920), "The Measurement of the Inequality of Incomes," *Economic Journal* 30(119), 348-361.
- (R) Atkinson, A. B. (1970), "On the Measurement of Inequality," *Journal of Economic Theory* 2, 244-63.
- Shorrocks, A. F. (1980), "The Class of Additively Decomposable Inequality Measures," *Econometrica* 48(3), 613-626.
- Shorrocks, A. F. (1982), "Inequality Decomposition by Factor Components," *Econometrica* 50(1), 193-212.
- Elbers, C., Lanjouw, J. O. & Lanjouw, P. (2003), "Micro-Level Estimation of Poverty and Inequality," *Econometrica* 71(1), 355-64.

C. Vulnerability

- Ligon, E. & Schechter, L. (2003), "Measuring Vulnerability," *Economic Journal* 113(486), 95-102.
- (R) Calvo, C. & Dercon, S. (2005), "Measuring Individual Vulnerability," Oxford University, WPS No. 229.

II. ENDOWMENT SENSITIVITY BETWEEN AND WITHIN HOUSEHOLDS

A. The Impact of Endowments on Production and Consumption Decisions

- Benjamin, D. (1995). "Can Unobserved Land Quality explain the Inverse Productivity Relationship?" *J of Dev Econ* (February) 46(1):51-84.
- Sadoulet, E., A. de Janvry and C. Benjamin (1996). "Household Behavior with Imperfect Labor Markets," *Industrial-Relations* 37(1):85-108.
- (R) Carter, M.R. and Y. Yao (2002). "Local versus Global Separability in Agricultural Household Models: The Factor Price Equalization Effect of Land Transfer Rights in China," *Am J of Agri Econs* 84(3):702-715.
- Burgess, R. (1997). "Market Incompleteness and Nutritional Status in Rural China," working paper, London School of Economics.

B. Intra-Household Wealth and Income Distribution

- Haddad, L. and R. Kanbur (1990). "How Serious is the Neglect of Intra-Household Inequality?" *Econ Journ* 100(402): 866-881.
- (R) Carter, M. R. and E. Katz (1997). "Separate Spheres and the Conjugal Contract: Understanding Gender-Biased Development," in L. Haddad , J. Hoddinott and H. Alderman (eds.) *Intrahousehold Resource Allocation in developing Countries: Methods, Models and Policy* (Johns Hopkins).
- Thomas, D. (1990). "Intra-Household Resource Allocation: An Inferential Approach," *J of Hum Resources* 25(4): 635-664.
- Barham, Bradford and Takayoshi Kusago (2001). "Preference Heterogeneity , Power and Intrahousehold Decision-Making in Rural Malaysia," *World Development* 29(7):1237-1256.
- Doss, Cheryl (2001). "Is Risk Fully Pooled within the Household? Evidence from Ghana," *Econ Dev and Cult Change* 50(1): 101-130.
- (R) Udry, C. (1996). "Gender, Agricultural Production and the Theory of the Household," *J of Polit Econ* 104(5): 1010-1046.
- Fafchamps, M. and A. Quisumbing (2003). "Social Roles, human capital and the intrahousehold division of labor: evidence from Pakistan," *Oxford Economic Papers* 55: 36-80.
- Deere, C.D. and Ch. Doss (2006). "The gender asset gap: What do we know and why does it matter?" *Feminist Economics* 12(1/2): 1 – 50.

III. SOCIAL NETWORKS, LEARNING AND TECHNOLOGY ADOPTION

A. General - Social Effects

- (R) Manski, C. (1993), "Identification of Endogenous Social Effects: The Reflection Problem," *Review of Economic Studies* 60(3), 531-542.
- Udry, C. & Conley, T. (2005), *Social Networks in Ghana*, in C. B. Barrett, ed., *The Social Economics of Poverty: Identities, Groups, Communities and Networks*, London: Routledge, chapter 10.

B. Technology Adoption and Learning

- Ellison, G. & Fudenberg, D. (1993), "Rules of Thumb for Social Learning," *Journal of Political Economy* 101(4), 612-643.
- Besley, T. & Case, A. (1994), "Diffusion as a Learning Process: Evidence from HYV Cotton," *RPDS Working Paper No. 174*.
- (R) Foster, A. & Rosenzweig, M. R. (1995), "Learning by Doing and Learning from Others: Human Capital and Technical Change in Agriculture," *Journal of Political Economy* 103(6), 1176-1209.
- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, chapter 12.

- Munshi, K. (2004), "Social Learning in a Heterogeneous Population: Technology Diffusion in the Indian Green Revolution," *Journal of Development Economics* 73(1), 185-213.
- C. Technology Adoption With Network Data**
 - Miguel, E. & Kremer, M. (2003), "Networks, Social Learning, and Technology Adoption: The Case of Deworming Drugs in Kenya," Unpublished Working Paper.
 - (R) Conley, T. & Udry, C. (2005), "Learning About a New Technology: Pineapple in Ghana," Unpublished Working Paper.
 - Bandiera, O. & Rasul, I. (2006), "Social Networks and Technology Adoption in Northern Mozambique," *Economic Journal* Forthcoming.
- D. Other Applications: Job Search and Labor Markets in Social Networks**
 - Greif, A. (1993), "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Trader's Coalition," *American Economic Review* 83(3), 525-548.
 - Munshi, K. (2003), "Networks in the Modern Economy: Mexican Migrants in the U. S. Labor Market," *Quarterly Journal of Economics* 118(2), 549-599.
 - * Krishnan, P. & Sciubba, E. (2005), "Links and Architecture in Village Networks," CWPE Working Paper No. 0462.

IV. RISK SHARING AND INFORMAL INSURANCE

- A. Overview**
 - (R) Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford
- B. Risk Sharing in Social Networks**
 - Fafchamps, M. & Lund, S. (2003), "Risk-sharing networks in rural Philippines," *Journal of Development Economics* 71(2), 261-287
 - Dercon, S. & DeWeerd, J. (2006), "Risk-Sharing Networks and Insurance Against Illness," *Journal of Development Economics* Forthcoming.
 - (R) Bloch, F., Genicot, G. & Ray, D. (2006), "Informal Insurance in Social Networks," Unpublished Working Paper.
- C. Limited Commitment**
 - Fafchamps, M. (1992), "Solidarity Networks in Pre-Industrial Societies: Rational Peasants with a Moral Economy," *Economic Development and Cultural Change* 41(1), 147-174.
 - Coate, S. & Ravallion, M. (1993), "Reciprocity Without Commitment: Characterization and Performance of Informal Insurance Arrangements," *Journal of Development Economics* 40(1), 1-24.
 - (R) Ligon, E., Thomas, J. P. & Worrall, T. (2002), "Informal Insurance Arrangements with Limited Commitment: Theory and Evidence from Village Economies," *Review of Economic Studies* 69(1), 209-244.
 - Genicot, G. & Ray, D. (2003), "Group Formation in Risk-Sharing Arrangements," *Review of Economic Studies* 70(1), 87-113.

V. CONSERVATION AND DEVELOPMENT IN RURAL AREAS

- A. Overview and Introduction to Key Issues**
 - Dasgupta, P. "Poverty and the Environmental Resource Base," Chapter 10, *An Inquiry into Well-Being and Destitution*, Oxford: Clarendon Press, 1993.
 - (R) Bardhan, P. and C. Udry, "Environment and Development", chapter 13 in *Development Microeconomics*, Oxford University Press, 1999.
 - Chapter 7 in *World Development Report*, Oxford University Press, 1992.
- B. Open Access, Common Property, and Privatization: Key Concepts and Game-Theoretic Approaches to Resource Management Issues**

- A. Agarwal and C. Gibson, "Enchantment and Disenchantment: The Role of Community in Natural Resource Conservation," *World Development*, 27, 4 (1999): 629-649.
- (R) P. Seabright, "Managing Local Commons: Theoretical Issues in Incentive Design," *Journal of Economic Perspectives*, 17, 4 (1993): 113-134.
- Jean-Marie Baland and Jean-Philippe Platteau, "The Ambiguous Impact of Inequality on Local Resource Management," *World Development*, 27, 5, 1999: 773-788.

C. Inequality, Common Property, and Public Goods Provision

- (R) Jean-Marie Baland and Jean-Philippe Platteau, "Wealth Inequality and Efficiency in the Commons, Part I: The Unregulated Case," *Oxford Economic Papers*, 49, 4 (1997): 451-482.
- (R) Jeff Dayton-Johnson and Pranab Bardhan, "Inequality and Conservation on the Local Commons: A Theoretical Exercise," *The Economic Journal*, 112 (July) (2002): 577-602.

D. Some Empirical Examinations of Common Property Resource Management

- (R) Ostrom E. and R. Gardner, "Coping with Asymmetries in the Commons: Self-Governing Irrigation Systems Can Work," *Journal of Economic Perspectives*, 7, 4 (1993): 93-112.
- (R) Bardhan, P. "Irrigation and Cooperation: An Empirical Analysis of 48 Irrigation Communities in South India," *Economic Development and Cultural Change*, 48, 4: 847-65.
- Jean Marie-Baland et al. (2002), "Inequality, Collective Action, and the Environment: Evidence from Firewood Collection in Nepal," forthcoming in *Inequality, Collective Action, and Environmental Sustainability*.

E. Agricultural Expansion and Deforestation: Theoretical Models

- Angelsen, A. "Agricultural expansion and deforestation: modelling the impact of population, market forces, and property rights," *Journal of Development Economics*, 58 (1999): 185-218.
- Angelsen A. and D. Kaimowitz, "When Does Technological Change in Agriculture Promote Deforestation?" in *Tradeoffs or Synergies? Agricultural Intensification, Economic Development, and the Environment*, ed. By D.R. Lee and C.B. Barrett, CABI Publishing: New York, 2001.

Agricultural Expansion and Deforestation: Empirical Studies

- Pichón, Francisco J. "Colonist Land-Allocation Decisions, Land Use, and Deforestation in the Ecuadorian Amazon Frontier," *Economic Development and Cultural Change*, 45, 4 (1997): 707-744.
- "Poverty, Policies, and Deforestation: The Case of Mexico," K. Deininger and B. Minten, *Economic Development and Cultural Change*, 47, 2, 1999: 313-344.

VI. NORMS, EXPERIMENTS AND PSYCHOLOGY

A. Development, Poverty and Inequality

- (R) Duflo, Esther (2004) "Poor but rational?". Mimeo Poverty Action Lab – MIT Economics.
- Hoff, K. & Pandey, P. (2006), "Discrimination, Social Identity, and Durable Inequalities," *American Economic Review (Papers and Proceedings)* 96(2), 206-211.
- (R) Carpenter, Jeffrey and Juan Camilo Cardenas (2005) "Experiments and Economic Development: Lessons from field labs in the developing world". Mimeo.

B. Experiments and Psychology

- Bertrand, M., Mullainathan, S. & Shafir, E. (2004), "A Behavioral-Economics View of Poverty," *American Economic Review (Papers and Proceedings)* 94(2), 419-423.
- Mullainathan, S. (2006), "Development Economics through the Lens of Psychology," *Proceedings of the Annual Bank Conference on Development Economics*, Forthcoming.
- Camerer, C. F. (2006), "Comment on 'Development Economics through the Lens of Psychology' by Sendhil Mullainathan," *Proceedings of the Annual Bank Conference on Development Economics*, Forthcoming.
- Henrich, J., Boyd, R., Bowles, S., Camerer, C., Gintis, H., McElreath, R. & Fehr, E. (2001), "In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale

Societies," *American Economic Review (Papers and Proceedings)* 91(2), 73-78.

C. Natural Resource Management

- Cardenas, Juan Camilo (2002) "Rethinking Local Commons Dilemmas: Lessons from Experimental Economics in the Field". Chapter 10. In Jonathan Isham, Thomas Kelly and Sunder Ramaswamy, Editors. "Social Capital and Economic Development: Well-Being in Developing Countries" Edward Elgar Publishing. Fall 2002.
- Cardenas, Juan Camilo, John K. Stranlund and Cleve E. Willis (2000) "Local Environmental Control and Institutional Crowding-out". *World Development*, October, Vol 28, No. 10. pp. 1719-1733.
- Barr, A. (2003), "Risk Pooling, Commitment, and Information: An Experimental Test of Two Fundamental Assumptions," CSAE Working Paper No. 187.

D. Institutions/Norms

- Bardhan, P. & Udry, C. (1999), *Development Microeconomics*, New York: Oxford University Press, chapter 17.
- Besley, T. (1995), "Property Rights and Investment Incentives: Theory and Evidence from Ghana," *Journal of Political Economy* 103(5), 903-937.
- (R) Besley, T. & Burgess, R. (2000), "Land Reform, Poverty Reduction, and Growth: Evidence from India," *Quarterly Journal of Economics* 115(2), 389-430.
- Field, E. (2003), "Entitled to Work: Urban Property Rights and Labor Supply in Peru," Unpublished Working Paper.
- Banerjee, A. & Iyer, L. (2005), "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review* 95(4), 1190-1213.

Corruption Theory

- Banerjee, A. (1997), "A Theory of Misgovernance," *Quarterly Journal of Economics* 112(4), 1289-1332.
- Bardhan, P. (1997), "Corruption and Development: A Review of Issues," *Journal of Economic Literature* 35, 1320-1346

Corruption Experiments

- Reinikka, R. & Svensson, J. (2004), "Local Capture: Evidence from a Central Government Transfer Program in Uganda," *Quarterly Journal of Economics* 119(2), 679-705.
- Olken, B. A. (2005), "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," Unpublished Working Paper.
- Olken, B. A. (2006), "Corruption and the Costs of Redistribution: Micro Evidence from Indonesia," *Journal of Public Economics* 90(4-5), 853-870.

Evolutionary Approaches to Common Property Use and Social Norms

- Sethi, R. and E. Somanathan, "The Evolution of Social Norms in Common Property Resource Use," *American Economic Review*, 86, 4 (1996): 766-88.
- Ostrom, E. "Collective Action and the Evolution of Social Norms," *Journal of Economic Perspectives*, 14, 3:137-158.

University Policy and Resources

Academic Honesty, Software Use, UF Counseling Services, Services for Students with Disabilities

In 1995 the UF student body enacted a new honor code and voluntarily committed itself to the highest standards of honesty and integrity. When students enroll at the university, they commit themselves to the standard drafted and enacted by students.

In adopting this honor code, the students of the University of Florida recognize that academic honesty and integrity are fundamental values of the university community. Students who enroll at the university commit to holding themselves and their peers to the high standard of honor required by the honor code. Any individual who becomes aware of a violation of the honor code is bound by honor to take corrective action. The quality of a University of Florida education is dependent upon community acceptance and enforcement of the honor code.

The Honor Code: We, the members of the University of Florida community, pledge to hold ourselves and our peers to the highest standards of honesty and integrity.

On all work submitted for credit by students at the university, the following pledge is either required or implied: **“On my honor, I have neither given nor received unauthorized aid in doing this assignment.”**

The university requires all members of its community to be honest in all endeavors. A fundamental principle is that the whole process of learning and pursuit of knowledge is diminished by cheating, plagiarism and other acts of academic dishonesty. In addition, every dishonest act in the academic environment affects other students adversely, from the skewing of the grading curve to giving unfair advantage for honors or for professional or graduate school admission. Therefore, the university will take severe action against dishonest students. Similarly, measures will be taken against faculty, staff and administrators who practice dishonest or demeaning behavior.

Students should report any condition that facilitates dishonesty to the instructor, department chair, college dean or Student Honor Court.

(Source: 2007-2008 Undergraduate Catalog)

It is assumed all work will be completed independently unless the assignment is defined as a group project, in writing by the instructor.

This policy will be vigorously upheld at all times in this course.

Software Use:

All faculty, staff and students of the university are required and expected to obey the laws and legal agreements governing software use. Failure to do so can lead to monetary damages and/or criminal penalties for the individual violator. Because such violations are also against university policies and rules, disciplinary action will be taken as appropriate.

Campus Helping Resources

Students experiencing crises or personal problems that interfere with their general well-being are encouraged to utilize the university's counseling resources. Both the Counseling Center and Student Mental Health Services provide confidential counseling services at no cost for currently enrolled students. Resources are available on campus for students having personal problems or lacking clear career or academic goals, which interfere with their academic performance. The Counseling Center is located at 301 Peabody Hall (next to Criser Hall). Student Mental Health Services is located on the second floor of the Student Health Care Center in the Infirmary.

- *University Counseling Center*, 301 Peabody Hall, 392-1575, www.counsel.ufl.edu
- *Career Resource Center*, CR-100 JWRU, 392-1602, www.crc.ufl.edu/
- *Student Mental Health Services*, Rm. 245 Student Health Care Center, 392-1171, www.shcc.ufl.edu/smhs/

Alcohol and Substance Abuse Program (ASAP)
Center for Sexual Assault / Abuse Recovery & Education (CARE)
Eating Disorders Program
Employee Assistance Program
Suicide Prevention Program

Students with Disabilities

The Disability Resource Center coordinates the needed accommodations of students with disabilities. This includes registering disabilities, recommending academic accommodations within the classroom, accessing special adaptive computer equipment, providing interpretation services and mediating faculty-student disability related issues.

0001 Reid Hall, 392-8565, www.dso.ufl.edu/drc/