

**Summer term 2024**  
**“Topics in Development Economics”**



**UNIVERSITÄT  
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Dates and Times of Lectures: Fridays on the following dates - 19.04.2024, 03.05.2024, 17.05.2024, 07.06.2024, 21.06.2024, 05.07.24. There will be a total of 6 lectures, with 4 of them being conducted via Zoom, and 2 taking place in person at AWI. The lectures, scheduled between 14:00 and 16:00, will be recorded and made available online through Moodle.

To join the Zoom lectures, please click on the following URL:

<https://monash.zoom.us/j/82196888958?pwd=RTFOYjlnZD2RsWTBYcFhEV-TJWeXNDQT09>

Dates and Times of Exercise: Thursdays on the following dates - 25.04.2024, 09.05.2024, 23.05.2024, 30.05.2024, 13.06.2024, 27.06.2024. These Thursday sessions will be held from 16:00 to 18:00 at AWI Room 01.030.

**Note:** Teaching will be in English.

**Assessments**

1. Take home assignment based on all parts of the course – individual assignment – 51% of grade.
2. Preparing a video recording for an UN-Forum to showcase your countries' current state of development; a description of the market and government failures; role of geography in shaping historical and contemporary development; and the impact of colonization – group assignment – 24% of grade.
3. Designing a randomized control trial in the field of health or education – group assignment – 25% of grade.

## **Content Topics in Development Economics** **Instructor: Rajesh Ramachandran**

### **Overview**

The course introduces students to the field of economics of development. We will start off by describing and examining how we conceptualize or measure development and its relationship to economic growth. We will learn some stylized macro facts about growth, as well as the lives of the poor, and explore the key differences between the growth and the development approach.

The first part of the course will present a long run historical view to understanding today's large differences in the levels of per capita income across countries, and in particular, the role of institutions, geography and human capital. We will visit the theories of Jared Diamond, as well as try and understand what explains the great divergence between Europe and the rest of the world in the early modern era. We will during the process of dealing with these topics also familiarize ourselves with the new econometric techniques – difference-in-differences estimator, instrumental variable regressions, regression discontinuity design – and pay particular attention to the causal revolution in methodology that has occurred over the last two decades

We will next turn to a more micro based view of development. We will first turn to the approach termed as randomized control trials (RCTs). We will then examine the state of education and health with a particular focus on sub-Saharan Africa, and explore the implemented RCTs to see we have learnt about improving human capital and health in low-income countries.

The last part of the course will describe and examine theories and evidence on the role of gender in the process of economic development.

### **Week 1**

#### **Introduction to development economics**

What motivates us to study the question of economic development? We begin by highlighting differences in the levels of well-being and development in a global comparative perspective to shed light on the scale of divergence. We will then discuss the key aspects to be covered in the course. The first lecture will also tackle the key question of how do we conceptualize and measure well being. We will compare and contrast commodity accounting and the utilitarian calculus approach with the capability approach to compare and assess the various methodologies.

#### **Week's learning outcomes**

1. Be able to describe the differences in the levels of well-being across countries based on various measures of well-being such as the human development index and its constituent terms.
2. Detail how income or economic growth might be incomplete indicators for capturing well-being or development.
3. Describe and implement multidimensional poverty measures and outline why it might provide a different picture on the state of well-being compared to poverty lines based on income.

## Key Readings

1. Sen, A. K. (1990), 'Development as Capability Expansion', in Keith Griffin and John Knight (eds), *Human Development and the International Development Strategy for the 1990s*, London: Macmillan, pp. 41-58.
2. Nussbaum, M. C. (2003), 'Capabilities as Fundamental Entitlement: Sen and Social Justice', *Feminist Economics*, 9(2-3), 33-59.
3. Sugden, R. (1993), 'Welfare, Resources, and Capabilities: A Review of Inequality Reexamined by Amartya Sen', *Journal of Economic Literature*, 31, 1947-62.

## Week 2

### **Economic Growth, Development and Lives of the Poor**

We will describe the standard prediction of growth models on convergence in income per capita and growth rates, and assess how these line up when compared to actual data. We will then examine the differences in the assumption underlying the growth approach and the development approach in interpreting the world. In particular, our focus will be on the role of market and government failures.

We will then turn to detailing certain basic facts about the economic lives of the poor: how they spend their money; how do they earn; what occupations are they involved in etc; and consequently understand the market environment they operate in and the public infrastructure they have access to. This will help us probe the validity of the assumptions underlying the growth and development approach.

### **Week's learning outcomes**

1. Describe the patterns of convergence, as well income mobility, across countries.
2. Explain the key differences in the assumptions of the growth and the development approach.
3. Detail a picture of the economic lives of the poor.
4. Outline and examine the nature of market and government failures that poor face.

## Key Readings

1. Banerjee, Abhijit V., and Esther Duflo. "The economic lives of the poor." *Journal of economic perspectives* 21.1 (2007): 141-167.
2. Das, Jishnu, Jeffrey Hammer, and Kenneth Leonard. "The quality of medical advice in low-income countries." *Journal of Economic perspectives* 22.2 (2008): 93-114.
3. Chaudhury, Nazmul, et al. "Missing in action: teacher and health worker absence in developing countries." *Journal of Economic perspectives* 20.1 (2006): 91-116.

### **Week 3**

#### **The long run divergence debate - The role of geography**

We will explore why geography might matter in contemporary times for economic development, in particular through the disease burden it imposes, and the varying costs of transportation and mobility.

We will next turn to classifying and describing why geography might have an important role to play in the long run, in particular, how it affected which parts of the world were the first to convert from hunter gatherers to agriculturalists, as well as the first ones to domesticate mammals. We will explore how and why the transition from hunter gatherer to agriculturalists and the ability to domesticate animals had important implications for human societies.

#### **Week's learning outcomes**

1. Classify, describe and examine the channels through which geography matters in contemporary times
2. Classify, describe and examine the channels through which geography shaped historical possibilities for development.
3. Examine and appraise the challenges to the view that geography is a primary factor in affecting economic development.

#### **Key Readings**

1. Diamond, Jared M. *Guns, germs and steel: a short history of everybody for the last 13,000 years*. Random House, 1998. (Ch. 4 Farmer Power)
2. Acemoglu, Daron, Simon Johnson, and James Robinson. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics*, 117, (2002): 1231-1294
3. Chanda, Areendam, C. Justin Cook, and Louis Putterman. "Persistence of fortune: Accounting for population movements, there was no post-Columbian reversal." *American Economic Journal: Macroeconomics* 6.3 (2014): 1-28.

### **Week 4**

#### **Colonization and its long run consequences: The role of Institutional Persistence**

We will examine the long run consequences of one of the key historical events of the past millennium, the European colonisation of the world.

We will first explore the role of factor endowments and disease burden in shaping the form of institutions that were implemented by the European colonisers. We will then turn to identifying and investigating how these institutions have persisted into contemporary times. Finally, we explore four case studies from Peru, India and Africa to better illustrate the workings of these theories.

## **Week's learning outcomes**

1. Be able to describe and probe the role of factor endowments and disease burden in affecting the incentives of the colonizers to implement different institutional arrangements.
2. Explain and examine the distinction between inclusive and extractive institutions.
3. Describe and compare the mechanisms through which institutional arrangements of the past persist in to the present.
4. Explain how instrumental variable regressions; regression continuity design and natural experiments are employed to estimate causal effects.

## **Key Readings**

1. Engerman, Stanley, and Kenneth L. Sokoloff. "Institutions, factor endowments, and paths of development in the new world." *Journal of economic Perspectives* 14.3 (2000): 217-32.
2. Dell, Melissa. "The persistent effects of Peru's mining mita." *Econometrica* 78.6 (2010): 1863-1903.
3. Iyer, Lakshmi. "Direct versus indirect colonial rule in India: Long-term consequences." *The Review of Economics and Statistics* 92.4 (2010): 693-713.
4. Michalopoulos, Stelios, and Elias Papaioannou. "The long-run effects of the scramble for Africa." *American Economic Review* 106.7 (2016): 1802-1848.

## **Week 5 and Week 6**

### **The Rise of Europe**

We will examine the theories explaining why Europe was the first region to escape the Malthusian trap and industrialize. We will study the three schools of thought: the internal view propounded by scholars such as Landes (1998), who have highlighted the uniqueness of the European experience and attributed its rise to its unique institutional framework. The view of scholars like Eric Williams and Andre Gunder Frank, highlighting the importance of colonial extraction. Finally, we will turn to the work of Pomeranz (2000) who have argued for a more balanced approach highlighting the key role of the privileged access of Europe to resources from the New world, as well as some features of institutional change.

Finally, we explore four case studies highlighting the role of discovery of silver in the new world, the feudal origins of European institutions, the impact of the Protestant Reformation and the implications of the combination of the plague, urbanization and war in escaping the Malthusian trap.

## **Week's learning outcomes**

1. Describe the various schools of thoughts to explain the economic development of Europe.
2. Illustrate the role of availability of resources from the new world in Europe's economic transformation.
3. Detail and appraise the feudal origins of European institutions.
4. Describe and examine the implications of the Protestant Reformation.

## Key Readings

1. Pomeranz, Kenneth. "The great divergence." *The Great Divergence*. Princeton University Press, 2009. Introduction and Ch. 1.
2. Palma, Nuno. "The real effects of monetary expansions: evidence from a large-scale historical experiment." *The Review of Economic Studies* 89.3 (2022): 1593-1627
3. Blaydes, Lisa, and Eric Chaney. "The feudal revolution and Europe's rise: Political divergence of the Christian west and the Muslim world before 1500 CE." *American Political Science Review* 107.1 (2013): 16-34.
4. Becker, Sascha O., Steven Pfaff, and Jared Rubin. "Causes and consequences of the Protestant Reformation." *Explorations in Economic History* 62 (2016): 1-25.
5. Voigtländer, Nico, and Hans-Joachim Voth. "The three horsemen of riches: Plague, war, and urbanization in early modern Europe." *Review of Economic Studies* 80.2 (2013): 774-811.

## Week 7

### **Randomized Control Trials (RCTs)**

We will have an introduction to the scientific method of RCTs. We will study how RCTs help its solve the central problem of casual inference through generating an appropriate control group. We will examine the methods of individual and cluster randomisation and the key issues that we need to think about when designing a RCT.

### **Week's learning outcomes**

1. Describe and and examine how RCTs solve the inference problem.
2. Detail and interpret the distinction between individual and cluster level randomisation.
3. Evaluate the pros and cons of cluster randomization.
4. Delineate and examine the key aspects to think about when designing trials.

## Key Readings

1. Muralidharan, Karthik. "Field experiments in education in developing countries." *Handbook of economic field experiments*. Vol. 2. North-Holland, 2017. 323-385.
2. Duflo, Esther, Rachel Glennerster, and Michael Kremer. "Using randomization in development economics research: A toolkit." *Handbook of development economics* 4 (2007): 3895-3962.

## Week 8

### **Education**

Creating an educated and skilled workforce is a key challenge for developing economies. In this lecture, we will look at the global trends in education. We will examine the picture with regard to both quantity, as well as quality of human capital. We will then turn to India and sub-Saharan Africa to describe the quality issues these systems are facing. Finally, we look at the inputs into the student learning production function and the what recent evidence based on RCTs on the relative importance of these inputs.

## **Week's learning outcomes**

1. Describe the distinction between quality and quantity of human capital.
2. Characterize the state of student learning outcomes in India and sub-Saharan Africa.
3. Classify, examine and evaluate the role of schooling inputs, governance and pedagogy as factors affecting student learning outcomes.
4. Describe and evaluate RCTs on the role of improving inputs, governance and pedagogy.

## **Key Readings**

1. Glewwe, Paul, and Karthik Muralidharan. "Improving education outcomes in developing countries: Evidence, knowledge gaps, and policy implications." *Handbook of the Economics of Education*. Vol. 5. Elsevier, 2016. 653-743.
2. Additional articles on education will be assigned.

## **Week 9**

### **Health**

Good health is not only a means to achieving economic objectives but a very important end in itself, as absence a healthy existence, life satisfaction or well-being is likely to be negatively affected. In this lecture, we will examine the global trends in certain key indicators of health - life expectancy, infant and maternal mortality rates. We will then describe the the major risk factors in global mortality and the key factors underlying the increase in life expectancy. We will then explore two salient features of health related behavior in low income settings and the use of RCTs to shed light on some key health related behaviors.

## **Week's learning outcomes**

1. Delineate the gains in the domain of life expectancy.
2. Describe and examine why out of pocket expenses on health in low income settings are high.
3. Outline and appraise why people invest little in preventive health in low income settings.
4. Examine RCTs on whether cost sharing of health products aids or harms adoption.

## **Key Readings**

1. Dupas, Pascaline, and Edward Miguel. "Impacts and determinants of health levels in low-income countries." *Handbook of economic field experiments*. Vol. 2. North-Holland, 2017. 3-93.
2. Dupas, Pascaline. "Getting essential health products to their end users: Subsidize, but how much?." *Science* 345.6202 (2014): 1279-1281.

3. Cohen, Jessica, and Pascaline Dupas. "Free distribution or cost-sharing? Evidence from a randomized malaria prevention experiment." *The Quarterly Journal of Economics* 125.1 (2010): 1-45.
4. Miguel, Edward, and Michael Kremer. "Worms: identifying impacts on education and health in the presence of treatment externalities." *Econometrica* 72.1 (2004): 159-217.

## **Week 10**

### **Women and Economic Development**

We discuss the importance of identity in affecting economic outcomes through the lens of gender. We will examine salient features of gender inequality, namely, labor force participation, gender pay gaps, the childbearing penalty, the implications of unpaid care work, women agency and finally evolution of the women labor force participation in the United States.

### **Week's learning outcomes**

1. Describe the extent and domains of gender inequality.
2. Examine and appraise the role of history in particular the use of plough vs shifting culture in pre-industrial times in affecting female labor force participation today.
3. Delineate and examine the childbearing penalty: how it is measured and the factors that underlie the same.
4. Describe and investigate the factors underlying the rise of female labor force participation in the United States.

### **Key Readings**

1. Chattopadhyay, R and E Duflo (2004), "Women as policy makers: evidence from a randomized experiment in India", *Econometrica* 72: 1409-1443.
2. Alesina, Alberto, Paola Giuliano, and Nathan Nunn. "On the origins of gender roles: Women and the plough." *The quarterly journal of economics* 128.2 (2013): 469-530.
3. Kleven, Henrik, et al. "Child penalties across countries: Evidence and explanations." *AEA Papers and Proceedings*. Vol. 109. 2014 Broadway, Suite 305, Nashville, TN 37203: American Economic Association, 2019.
4. Goldin, Claudia. "The quiet revolution that transformed women's employment, education, and family." *American economic review* 96.2 (2006): 1-21.