

# Economic Development

(version of August 29, 2022)

ECON 461  
TTh 8:30-10AM

Room East Hall B844

Instructor:  
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## Course Description

This is a one-semester course in development economics for advanced undergraduate students.

What role does investment and (mis)allocation play in the process of economic development? Factors considered are human capital, health, financial and physical capital. Does poor health and education impede economic development? Why doesn't more capital flow to poor countries? What could it accomplish if it did? Why does it sometimes fly out? Are poverty traps important features of underdevelopment? A mix of (i) economic models and econometric studies; (ii) classic and cutting-edge articles; (iii) micro and macro perspectives; and (iv) contemporary and historical evidence.

## Readings

You are expected to read all of the double-starred items listed below. Single-starred items will be discussed in class, and it is suggested that you at least peruse them. The non-starred items listed are for your reference and are not required reading. Parentheticals following the references contain hyperlinks to downloadable versions of the cited works. The starred readings should all be available on-line from campus.

The book for the course, denoted below as *Poor Economics*, is

Banerjee, Abhijit, and Esther Duflo. 2011. *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. Public Affairs. Publisher's website

See Canvas for the on-line version of the syllabus. An approximate schedule of lectures will be posted there as well.

## Prerequisites

Economics 401. Students are expected to have a decent familiarity with intermediate microeconomics. Students should be conversant with micro and macroeconomic modeling. Given the presentation of statistical analysis in the course, Economics 451 or 452 (or their equivalent) are recommended, but Econ 251 should suffice. *We will use calculus extensively in this course*, mostly with derivatives to compute marginal benefits and costs, but occasionally with integrals to summarize a flow of utility or income.

## Requirements

There will be approximately 4 problem sets throughout the semester. These assignments will count for 30% of your grade. The problem sets will be graded, but the lowest problem-set grade will be dropped. Thus, no late problem sets will be accepted. If you have an emergency that prevents you from turning in a problem set, I will treat that problem set as the grade to be dropped. Problem sets will be posted on Canvas; answers will be posted on Canvas at a later date. You are encouraged to work with your classmates on the problem sets. You have the option of handing in solutions in groups of up to five students.

There will be two in-class midterm exams in mid February and late March, and they will count for 35% of your grade (17.5% each).

There will be a final exam during exam week. It will count for 35% of your course grade.

If you perform better on the final than you did on either or both of the midterms, I will replace the low midterm score with your final-exam score. This system makes the midterms effectively optional, though I strongly suggest that you take the tests. There will be no makeup exams for the midterms.

If you are not present in class on a particular day, please visit Canvas for any announcements that you may have missed.

## Policies

This course follows the departmental policies, which can be found at:

<https://lsa.umich.edu/econ/undergraduates/policies-and-procedures.html>

If you cannot perform assignments at their scheduled dates and times, you should not elect this course. I rarely give makeup examinations or accept late assignments. Except in major emergencies: Students who miss an examination without prior authorization receive zero points for that assignment; and students who submit problem sets or the paper assignments late, without prior authorization, are penalized.

## Outline

### I. Introduction: Basic Facts

Review the Gapminder and Our World In Data websites.

### II. Growth Accounting

\*\* Lucas, R. E. (1990). "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review* , 80:2 (May), pp. 92–96. (JSTOR)

\*\* Young, A. “Lessons from the East Asian NICs: A contrarian view,” *European Economic Review* Vol. 38 (April 1994), pp. 964–73. (ScienceDirect)

Solow, Robert M. “Technical Change and the Aggregate Production Function,” *The Review of Economics and Statistics*, Vol. 39, No. 3 (Aug., 1957), pp. 312-320. (JSTOR)

Barro, Robert J. “Notes on Growth Accounting,” *Journal of Economic Growth* Vol. 4, No. 2 (Jun., 1999), pp. 119-137. (JSTOR)

Easterly W., Levine R. (2001). “It’s not factor accumulation: Stylized facts and growth models.” *The World Bank Economic Review* 15(2): 177–219. (DOI)

\*\* Hall, R. and C. Jones. “Why Do Some Countries Produce So Much More Output per Worker than Others?” *Quarterly Journal of Economics* , February 1999, 114:1, pp. 83–116. (author)

\* Thompson, Peter (2001). “How Much Did the Liberty Shipbuilders Learn? New Evidence for an Old Case Study,” *Journal of Political Economy* , vol. 109(1), pages 103-137, February. (IDEAS)

### III. The Long Run: Persistence and Reversals

\*\* Pritchett, Lant. 1997. “Divergence, Big Time” *Journal of Economic Perspectives*, Vol. 11, No. 3. (Summer, 1997), pp. 3-17. (JSTOR)

\* Michael Kremer, “Population Growth and Technological Change: One Million B.C. to 1990,” *The Quarterly Journal of Economics* (1993) 108(3): 681-716.

\* Spolaore, Enrico, and Romain Wacziarg. 2013. “How Deep Are the Roots of Economic Development?” *Journal of Economic Literature*, 51(2): 325-69. (AEA)

\* García Jimeno, Camilo, and James A. Robinson. “The Myth of the Frontier,” Chapter 2 in *Understanding Long-Run Economic Growth: Geography, Institutions, and the Knowledge Economy*, D. Costa and N. Lamoreaux, eds., 2009. (NBER)

\*\* Kenneth L. Sokoloff and Stanley L. Engerman, “Institutions, Factors Endowments, and Paths of Development in the New World,” *Journal of Economic Perspectives*, Vol. 14, No. 3 (Summer, 2000), pp. 217-232. (JSTOR)

\* Acemoglu, Daron, Simon Johnson, and James A. Robinson. “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution,” *The Quarterly Journal of Economics* (2002) 117 (4): 1231-1294. (Oxford journals)

\*\* Glaeser, E., La Porta, R., Lopez-de-Silanes, F., Shleifer, A., 2004. “Do institutions cause growth?” *Journal of Economic Growth*, 9, 271–303.

\*\* Bleakley, Hoyt, and Paul Rhode, 2021. “The economics of antebellum slavery, redux: tests at the border.” (Working paper.)

\* Kuznets, Simon (1955), “Economic Growth and Income Inequality,” (Presidential Address), *American Economic Review*. Vol. 45: 1-28.

\*\* *Poor Economics*, Chapter 1, “Think Again, Again”

## IV. Education

\*\* *Poor Economics*, Chapter 4, “Top of the Class”

Psacharopoulos, George. “Returns to Education: A Further International Update and Implications,” *Journal of Human Resources*, Fall 1985, pp. 583–604. (World Bank)

\*\* Psacharopoulos, George. “Returns to investment in education: A global update,” *World Development*, Volume 22, Issue 9, September 1994, Pages 1325–1343. (Science Direct)

\*\* Rosenzweig, Mark R. “Microeconomic Approaches to Development: Schooling, Learning, and Growth.” In The “Agenda for Development Economics” Symposia, *Journal of Economic Perspectives*, Summer 2010, vol. 24, No. 3. (AEA)

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

Acemoglu, Daron and Joshua Angrist (2000). “How Large Are Human-Capital Externalities? Evidence from Compulsory Schooling Laws.” in B. S. Bernanke and K. Rogoff, eds., *NBER Macroeconomics Annual*, NBER MIT Press Cambridge, Massachusetts November pp. 9–58.(NBER)

\* Jensen, Robert. “The (Perceived) Returns to Education and the Demand for Schooling,” *Quarterly Journal of Economics*, May 2010.(JSTOR)

\* Bils M., Klenow P. (2000). “Does schooling cause growth?” *American Economic Review*, 5(90): 1160–1183. (DOI)

\*\* Bleakley, Hoyt (2017). “A Nudge to School: Triangulating the Gains.”

\*\* Iqbal Dhaliwal, Esther Duflo, Rachel Glennerster, Caitlin Tulloch, “Comparative Cost-Effectiveness Analysis to Inform Policy in Developing Countries: A General Framework with Applications for Education,” Working paper, Abdul Latif Jameel Poverty Action Lab (J-PAL), MIT August 10, 2011.(MIT)

Santos, Rafael. 2014. “Not all that Glitters Is Gold: Gold Boom, Child Labor and Schooling in Colombia.” Documento CEDE \*2014-31. (CEDE)

\* Angrist, J., Bettinger, E., and Kremer, M. (2006). “Long-Term Consequences of Secondary School Vouchers: Evidence from an Administrative Records in Colombia.” *American Economic Review* 96(3): 847-72. (AEA)

\* Galor, O. and J. Zeira. (1993) “Income Distribution and Macroeconomics,” *Review of Economic Studies*, v. 60, January, pp. 35-52. (JSTOR)

## V. Health and Nutrition

### V.A. Demand for Health

\*\* Bloom, David E., and David Canning. “Commentary: The Preston Curve 30 years on: still sparking fires,” *International Journal of Epidemiology*, 2007; 36:498–499, doi:10.1093/ije/dym079. (Oxford Journals)

\*\* Becker, Gary S., Tomas J. Philipson, and Rodrigo R. Soares. 2005. "The Quantity and Quality of Life and the Evolution of World Inequality." *American Economic Review*, 95(1): 277-291. (AEA)

\* Pritchett L, Summers LH (1994) Wealthier is Healthier. *Journal of Human Resources* 31: 841–868. doi: 10.2307/146149 (DOI)

### **V.B. Health as Human Capital**

\*\* *Poor Economics*, Chapter 3, "Low-Hanging Fruit For Better (Global) Health?"

\*\* Bleakley, H. (2010). "Health, Human Capital, and Development." *Annual Review of Economics*, 2:283–310. (publisher)

World Health Organization, "WHO on Health and Economic Productivity," *Population and Development Review* 25, no. 2 (June 1999), pp. 396-401. (Wiley)

Deaton, Angus, "The Great Escape: A Review Essay on Fogel's The Escape from Hunger and Premature Death, 1700-2100," *Journal of Economic Literature* (March 2006), pp. 1-19.

Fogel, Robert W. (1994). "Economic growth, population theory, and physiology: the bearing of long-term processes on the making of economic policy," *American Economic Review* Volume 84, Issue 3, Pages 369-395. (Scopus)

### **V.C. Indirect effects of mortality**

\*\* Bleakley, Hoyt (2016). "Longevity, Education, and Income: How Large is the Triangle?" (Author)

\*\* *Poor Economics*, Chapter 5, "Pak Sudarno's Big Family"

\* Federico, Giovanni. Review of Boserup's *The Conditions of Agricultural Growth*. in *Project 2001: Significant Works in Economic History*, eh.net. 2001. (EH.net)

Becker, Gary S. "Fertility and the Economy," *Journal of Population Economics* 5, no.3 (1992), pp. 185-201.

Coale, Ansley J. "The Demographic Transition," in *The Population Debate: Dimensions and Perspectives*. Papers of the World Population Conference: Bucharest, 1974, Vol. 1 (New York: United Nations, 1975), pp. 347-355.

\*\* Schultz, Theodore W. (1964). *Transforming Traditional Agriculture*, number 3 in 'Studies in Comparative Economics,' New Haven, CT: Yale University Press. Chapters 3–4.

\* Weil, David N. and Joshua Wilde (2009). "How Relevant Is Malthus for Economic Development Today?" *American Economic Review*. May 99 (2), 255–60. (AEA)

### **V.D. Parasites**

\*\* Miguel, Ted and Michael Kremer (2004). "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities," *Econometrica*, 72 (1): 159–217. (Wiley)

\*\* Bleakley, Hoyt 2010. Malaria Eradication in the Americas: A Retrospective Analysis of Childhood Exposure. *American Economic Journal: Applied*, April 2010, 2(2):1-45. (AEA)

\* Bleakley, Hoyt. 2007. Disease and development: evidence from hookworm eradication in the American South. *Quarterly Journal of Economics* . 122(1):73–117. (JSTOR)

\*\* Bundy, Donald *et al.*, 2009. “Deworming and Development: Asking the Right Questions, Asking the Questions Right” *PLOS/NTD*, January 2009. (PLOS)

## VI. Constraints on policy making

\*\* *Poor Economics*, Chapter 10, “Policies, Politics”

Hirschman, Albert O. *Journeys toward progress; studies of economic policy-making in Latin America*. New York, Twentieth Century Fund, 1963. (Chapter on land reform in Colombia)

### VI.A. The informal sector

\*\* Gordon, Roger, and Wei Li, 2009. “Tax structures in developing countries: Many puzzles and a possible explanation,” *Journal of Public Economics*, vol. 93(7-8), pages 855-866, August. (IDEAS)

\* Camacho, Adriana, Emily Conover, and Alejandro Hoyos. “Effects of Colombia’s Social Protection System on Workers’ Choice between Formal and Informal Employment.” *World Bank Econ Rev* (2014) 28 (3): 446-466. (Oxford Journals)

Azuara, Oliver, and Ioana Marinescu. “Informality and the Expansion of Social Protection Programs: The Case of Mexico,” *Journal of Health Economics*, 32 (2013), pp. 938-950. (PubMed)

### VI.B. Scaling up

\* Camacho, Adriana, and Emily Conover. 2011. “Manipulation of Social Program Eligibility.” *American Economic Journal: Economic Policy*, 3(2): 41-65. (AEA)

\*\* Chaudhury, Nazmul, Jeffrey Hammer, Michael Kremer, Karthik Muralidharan, and F. Halsey Rogers (2006). “Missing in action: Teacher and health worker absence in developing countries,” *Journal of Economic Perspectives*, 20(1): 91-116. (AEA)

\*\* Bold, Tessa, Mwangi Kimenyi, Germano Mwabu, Alice Ng’ang’a, and Justin Sandefur, (2013). “Scaling Up What Works: Experimental Evidence on External Validity in Kenyan Education,” Working Paper 321, Center for Global Development, 3/27/13. (CGD)

## VII. Migration

\*\* Clemens, Michael A. 2011. “Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?” *Journal of Economic Perspectives*, 25(3): 83-106. (AEA)

\* McKenzie, D., Stillman, S. and Gibson, J. (2010), How Important is Selection? Experimental versus Non-Experimental Measures of the Income Gains from Migration. *Journal of the European Economic Association*, 8: 913–945. (Wiley)

\* Klein, Paul, and Gustavo Ventura. (2007). “TFP Differences and the Aggregate Effects of Labor Mobility in the Long Run.” *The B.E. Journal of Macroeconomics*. Volume 7, Issue 1, ISSN (Online) 1935-1690, DOI: 10.2202/1935-1690.1370, May 2007. (Publisher)

\* Orley Ashenfelter. 2012. “Comparing Real Wage Rates,” *American Economic Review*. Apr 2012, Vol. 102, No. 2: Pages 617-642. (AEA)

## VIII. Borrowing and Entrepreneurship

\*\* Review the Solow and Ramsey growth models in your favorite macro/growth textbook.

\*\* *Poor Economics*, Chapter 7, “The Men from Kabul [...]”

\*\* *Poor Economics*, Chapter 9, “Reluctant Entrepreneurs”

\*\* Buera, Francisco J., Joseph P. Kaboski, and Yongseok Shin. 2014. “Macro-perspective on Asset Grants Programs: Occupational and Wealth Mobility.” *American Economic Review*, 104(5): 159-64. (AEA)

\*\* Banerjee, Abhijit V., and Benjamin Moll. 2010. “Why Does Misallocation Persist?” *American Economic Journal: Macroeconomics*, 2(1): 189-206. (AEA)

de Mel, Suresh, David McKenzie, Christopher Woodruff, 2008. “Returns to Capital in Microenterprises: Evidence from a Field Experiment,” *The Quarterly Journal of Economics*, 123(4):1329-1372, November.

\*\* de Mel, Suresh, David McKenzie, Christopher Woodruff, 2012. “One-Time Transfers of Cash or Capital Have Long-Lasting Effects on Microenterprises in Sri Lanka,” *Science*, February, Vol. 335 no. 6071 pp. 962-966. (ScienceMag)

\* Bleakley, Hoyt, and Joseph Ferrie (2013). “Up from Poverty? The 1832 Cherokee Land Lottery and the Long-run Distribution of Wealth,” NBER Working Paper 19175, October 2013. (author)

\* Shah, Anuj K., Sendhil Mullainathan, Eldar Shafir (2012). “Some Consequences of Having Too Little.” *Science* 2 November: Vol. 338 no. 6107 pp. 682-685.(publisher)

Khanna, Tarun. 2007. *Billions of Entrepreneurs: How China and India are Reshaping Their Futures—and Yours*. Boston, Mass.: Harvard Business School Press.

## IX. Crises

\*\* Chang, Roberto. (1999) “Understanding Recent Crises in Emerging Markets”, *Economic Review*, Federal Reserve Bank of Atlanta, 1999:QII, pp. 6–16. (FRB-Atlanta)

Dornbusch, R. (2001) “A Primer on Emerging Market Crises,” NBER Working Paper. January. (NBER)

Gavin, Michael *et al.* (1995) “The Macroeconomics of Capital Flows to Latin America: Experience and Policy Issues.” Working Paper, no. 310, Inter-American Development Bank: Washington, D.C., October. (direct link)

Cooper, Russell, and Andrew John. 1988. “Coordinating Coordination Failures in Keynesian Models”. *The Quarterly Journal of Economics* 103 (3). Oxford University Press: 441–63. (JSTOR)

## IX.A. Illiquidity

\* Chang, R. and A. Velasco. “Financial Crises in Emerging Markets: A Canonical Model,” Working Paper 98-10, Federal Reserve Bank of Atlanta, July 1998. (FRBA)

Diamond, D. and P. Dybvig. “Bank Runs, Deposit Insurance, and Liquidity,” *Journal of Political Economy*, 1983, pp. 401–19. (JSTOR)

\*\* Bleakley, H. and K. Cowan (2010). “Maturity Mismatch and Financial Crises: Evidence from Emerging Market Corporations.” *Journal of Development Economics*, 2010, 93:189–205. (DOI)

\* Caballero, R. and A. Krishnamurthy (2001). “A Dual Liquidity Model for Emerging Markets,” *American Economic Review*, May 2002. (AEAWeb)

### Tentative Schedule:

Class	Month	Date		Section	Topic	# Weeks	Reading:
		Tuesday	Thursday				
1	August	30		I	Intro	0.5	The syllabus; look at gapminder.org/tools
2	September		1	II	Growth Accounting	1	Lucas
3		6			”		Young; Hall and Jones
4			8	III	Persistence	1.5	Hall and Jones (cont’d)
5		13			”		Thompson; Pritchett; Garcia-Jimeno and Robinson
6			15		”		Sokoloff and Engerman; Bleakley and Rhode
7		20		IV	Education	2	Lecture notes on education; Psacharopoulos
8			22		”		Rosenzweig; Poor Econ ch 4
9		27			”		Iqbal et al.
10			29		”		Duflo; Jensen; Angrist et al.; Galor and Zeira
11	October	4		EXAM #1 (covers I-IV)			
12			6	V.A	Health (Demand)	0.5	Bloom and Canning; Becker et al.
		11		V.B	Health & Human Capital	1	Poor Econ ch 3; Bleakley (Annual Reviews)
13			13		”		”
14		18		[FALL BREAK]			
15			20	V.C	Indirect Effects of Mort.	1	Bleakley (triangle); Poor Econ ch 5
16		25		V.D	Parasites		Miguel & Kremer; Bleakley (hookworm); Bundy et al.
17			27	VI	Constraints on policy	1	Poor Econ ch 10; Gordon and Li
18	November	1			”		Chaudhury et al.; Bold et al.
19			3	VII	Migration	0.5	Clemens
20		8		EXAM #2 (covers V-VI)			
21			10	VIII	Entrepreneurship	2	Buera et al.; Poor Econ ch 7 and 9
22		15			”		de Mel et al; Bleakley and Ferrie
			17		”		Banerjee and Moll
23		22			”		Handout on financing with costly monitoring
24			24	[THANKSGIVING]			
25		29		IX	Crises	1.5	Chang
26	December		1		”		Chang and Velasco; handout on panics
27		6			”		Bleakley and Cowan
28			8		Review	0.5	

FINAL EXAM DURING EXAM WEEK  
(Tuesday, December 13, 1:30-3:30 pm)