

# Economic Development I, Part a

(version as of September 10, 2023)

ECON 665  
TTh 8:30-10:00AM  
173 Lorch Hall

Instructor:  
Hoyt Bleakley  
hoytb@umich.edu  
215 Lorch Hall

## Course Description

This course is one half semester of the two-term development economics field sequence for economics Ph.D. students. What role does factor accumulation and (mis)allocation play in the process of economic development? Factors considered are education, health, financial and physical capital. Do poor health and education impede economic development? What are salient constraints on the policy-making process? A mix of (i) economic models and econometric studies; (ii) classic and cutting-edge articles; and (iii) micro and macro perspectives.

## Readings

Students are expected to read *before class* 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.

Parentheticals following the references contain hyperlinks to downloadable versions of the cited works. The starred readings should all be available on-line from campus.

See Canvas for the on-line version of the syllabus.

## Requirements

There will be two problem sets throughout the course and an exam at the last meeting of the class. Problem sets will count for 50% of your grade. The exam will count for 50% each of your grade.

## Related seminars

All students interested in development should attend the development seminar (Thu, 4-5:30 pm). In the winter semester, there are frequently job talks related to development as well.

## Outline

### I Introduction

Review the Gapminder and Our World In Data websites.

\*\* 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)

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)

Center for Global Development. 2007. *When Capital Earns a 20% Real Return, What is Left for Labor? A Glimpse into Latin American Reality*. Transcript of interview with Arnold Harburger.

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)

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

## II Education

### II.A Basic Facts and Theory

\*\* Ben-Porath, Yoram. “The Production of Human Capital and the Life Cycle of Earnings,” *Journal of Political Economy*, Vol. 75, No. 4, Part 1 (Aug., 1967), pp. 352-365. (JSTOR)

\*\* Bleakley, Hoyt (2017). “Lecture Notes on Education.” (Notes will be posted to Canvas.)

\* Mincer, Jacob. “Investment in Human Capital and Personal Income Distribution,” *Journal of Political Economy*, Vol. 66, No. 4 (Aug., 1958), pp. 281-302. (JSTOR)

\* Psacharopoulos, George. “Returns to Education: A Further International Update and Implications,” *Journal of Human Resources*, Fall 1985. (Science Direct)

Psacharopoulos, George, “Economic Impact of Education,” from G. Psacharopoulos, *The Economic Impact of Education*, ICS Press, 1991.

\*\* 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)

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

### II.B Expanding access

\*\* 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. (AEAWeb)

\*\* Duflo, Esther (2004) “The Medium Run Consequences of Educational Expansion: Evidence from a Large School Construction Program in Indonesia,” *Journal of Development Economics* 74(1). (Science Direct)

Khanna, Gaurav. (2023) “Large-scale Education Reform in General Equilibrium: Regression Discontinuity Evidence from India.” forthcoming at the *Journal of Political Economy*

## II.C Quality

\*\* 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)

\* Glewwe, Paul, Michael Kremer, and Sylvie Moulin. 2009. ”Many Children Left Behind? Textbooks and Test Scores in Kenya.” *American Economic Journal: Applied Economics*, 1(1): 112-35. (AEAweb)

\* Jere R. Behrman and Nancy Birdsall. “The Quality of Schooling: Quantity Alone is Misleading,” *American Economic Review*, Vol. 73, No. 5 (Dec., 1983) , pp. 928-946. (JSTOR)

\* 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)

## II.D General Equilibrium and Macro

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

Jones, Benjamin F. 2014. “The Human Capital Stock: A Generalized Approach.” *American Economic Review*, 104(11): 3752-77. (publisher)

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.

Conley, Timothy G., Fredrick Flyer, and Grace R. Tsiang (2003). “Spillovers from Local Market Human Capital and the Spatial Distribution of Productivity in Malaysia.” *Advances in Economic Analysis and Policy*. 3 (1).

Moretti, Enrico (2004). “Human Capital Externalities in Cities.” in J. V. Henderson and c. T. Jacques-Fran eds., *Handbook of Regional and Urban Economics*, Vol. 4, Amsterdam: North-Holland, chapter 51, pp. 2243–2291.

### III Health

#### III.A Health, early life, and human capital

- \*\* Bleakley, H. (2010). "Health, Human Capital, and Development." *Annual Review of Economics*, 2:283–310. (publisher)
- \*\* Bleakley, Hoyt (2016). "Longevity, Education, and Income: How Large is the Triangle?" (NBER)
- \*\* Bleakley, Hoyt (2010). "Malaria in the Americas: A Retrospective Analysis of Childhood Exposure." *American Economic Journal: Applied*, April 2010, 2(2):1–45. (publisher)
- \* Cunha, Flavio and James J. Heckman (2008). "Formulating, Identifying and Estimating the Technology of Cognitive and Noncognitive Skill Formation." *Journal of Human Resources*. 43 (4).
- \* Almond, Douglas, and Bhashkar Mazumder (2008). "Health Capital and the Prenatal Environment: The Effect of Maternal Fasting During Pregnancy." Working Paper 14428, National Bureau of Economic Research, Cambridge, Mass. October.
- \* Jayachandran, Seema and Adriana Lleras Muney (2009). "Life Expectancy and Human Capital Investments: Evidence from Maternal Mortality Declines." *Quarterly Journal of Economics*. February 124 (1), 349–397.
- \* Pitt, Mark M., Mark R. Rosenzweig, and Mohammad Nazmul Hassan. 2012. "Human Capital Investment and the Gender Division of Labor in a Brawn-Based Economy." *American Economic Review*, 102(7): 3531-60.
- Alderman, Harold, John Hoddinott, and W. Kinsey (2006). "Long-term consequences of early childhood malnutrition," *Oxford Economic Papers*, 58 (3), pp. 450–474.
- Acemoglu, Daron and Simon Johnson (2007). "Disease and Development: The Effect of Life Expectancy on Economic Growth." *Journal of Political Economy*. December 115 (6), 925–985.
- Ashraf, Quamrul H., Ashley Lester, and David N. Weil (2009). "When Does Improving Health Raise GDP?" NBER Macroeconomics Annual.
- Behrman, Jere R. and Mark R. Rosenzweig (2004). "Returns to Birthweight." *Review of Economics and Statistics*. 86 (2), 586–601.
- Bhattacharyya, Sambit (2009). "Root Causes of African Underdevelopment." *Journal of African Economies*. 10. <http://dx.doi.org/10.1093/jae/ejp009>
- Elo, Irma and Samuel Preston. "Effects of early-life conditions on adult mortality: A Review," *Population Index*, 58 (2) (1992), pp. 186–211.
- Shoda Y, Mischel W, Peake PK. 1990. Predicting adolescent cognitive and social competence from preschool delay of gratification: identifying diagnostic conditions. *Dev. Psychol.* 26:978–86.
- Sally Grantham-McGregor et al., "The Long-Term Follow-Up of Severely Malnourished Children Who Participated in an Intervention Program," *Child Development*, Vol. 65, No. 2, Apr., 1994, pp.428-439.
- Sebnem Kalemli-Ozcan, Harl E. Ryder, David N. Weil, 2000. "Mortality decline, human capital investment, and economic growth." *J. Dev. Econ.* 62(1):1–23.

Peter Lorentzen, John McMillan, and Romain Wacziarg, 2008. “Death and development,” *Journal of Economic Growth*, Springer, vol. 13(2), pages 81-124, June.

Hazan, Moshe (2012). “Life Expectancy and Schooling: New Insights from Cross-Country Data.” *Journal of Population Economics*, Vol. 25, pp. 1237-1248, October 2012. (author)

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

Fogel, R.W. “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, 1994, Pages 369-395. (Scopus)

Galor, Oded (2010) The 2008 Klein Lecture: Comparative Economic Development: Insights from Unified Growth Theory. *International Economic Review* 51: 1–44. doi: 10.1111/j.1468-2354.2009.00569. (DOI)

## **IV Borrowing and its discontents**

### **V Constrained borrowing**

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

\*\* 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)

#### **V.A Maturity mismatch**

\*\* 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 (2002). “A Dual Liquidity Model for Emerging Markets,” *American Economic Review*, May. (AEA)

Jacklin, C. J. (1993). “Market Rate versus Fixed Rate Demand Deposits,” *Journal of Monetary Economics*, 32:2 (November 1993), pp. 237-58.

Wallace, N. “Another Attempt to Explain an Illiquid Banking System: The Diamond and Dybvig Model With Sequential Service Taken Seriously” *Federal Reserve Bank of Minneapolis Quarterly Review*. Fall 1988. (FRBM)

Green, E. J, P. Lin (2000). “Diamond and Dybvig’s Classic Theory of Financial Intermediation: What’s Missing?” *Federal Reserve Bank of Minneapolis Quarterly Review* Vol. 24, no. 1, pp. 3–13. (FRBM)

Morris, S. and H. S. Shin (2000). “Rethinking Multiple Equilibria in Macroeconomic Modelling,” *NBER Macroeconomics Annual*, (March). (NBER)

## V.B Strategic interactions and pricing

\*\* Cooper, R., and John, A. (1988). Coordinating Coordination Failures in Keynesian Models. *The Quarterly Journal of Economics*, 103(3), 441-463. (JSTOR)

\* Shleifer, A. and R. Vishny. “The Limits of Arbitrage,” *Journal of Finance*, 52:1 (April 1989), pp. 269–88. (Wiley)

## VI Constraints on the policy-making process, *i.e.* the sausage being made

### VI.A Institutions and incumbents

\*\* North, Douglass C. (1991). “Institutions.” *Journal of Economic Perspectives*, Volume 5, Number 1 — Winter — Pages 97–112. (AEAWeb) (Don’t print the whole 190 pages!)

\*\* Acemoglu, Daron, and James A. Robinson. 2000. “Political Losers as a Barrier to Economic Development.” *American Economic Review*, 90(2): 126-130. (JSTOR)

\*\* Bleakley, Hoyt and Paul Rhode, 2022. “The Economic Effects of American Slavery: Tests at the Border” Working paper. (Posted on canvas)

Azzimonti, Marina. 2011. “Barriers to Investment in Polarized Societies, *American Economic Review*, August 2011, Vol. 101, No. 5, pp. 2182-2204. (JSTOR)

Ebeke, Christian, Luc Désiré Omgba, and Rachid Laajaj. 2015. “Oil, governance and the (mis)allocation of talent in developing countries,” *Journal of Development Economics*, Volume 114, 2015, Pages 126-141. (DOI) (Science Direct)

\* Murphy, Kevin, Andrei Schleifer, and Robert Vishny. 1991. “The allocation of talent: implications for growth”, *Quarterly Journal of Economics*, 106 (2) (1991), pp. 503-530. (Oxford) (DOI)

### VI.B 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)

\* Gordon, Roger, and Wei Li, 2007. “Puzzling Tax Structures in Developing Countries: A Comparison of Two Alternative Explanations,” Chapter in: *Fiscal Policy and Management in East Asia*, NBER-EASE, Volume 16, pages 9-35 National Bureau of Economic Research. (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)

Martinelli, Cesar, and Susan Parker (2009). “Deception and Misreporting in a Social Program,” *Journal of the European Economic Association*, vol. 7, issue 4, pages 886-908. (RePEc)

\* De Mel, S., McKenzie, D. and Woodruff, C., 2013. “The demand for, and consequences of, formalization among informal firms in Sri Lanka.” *American Economic Journal: Applied Economics*, 5(2), pp.122-150. (World Bank)

McKenzie, D. and Sakho, Y.S., 2010. “Does it pay firms to register for taxes? The impact of formality on firm profitability.” *Journal of Development Economics*, 91(1), pp.15-24.

\* Ulyssea, Gabriel. 2018. “Firms, Informality and Development: Theory and evidence from Brazil.” *American Economic Review*, Vol. 108, No. 8, August 2018. (AEA)

## VI.C Scaling up

\*\* Bold, Tessa, Mwangi Kimenyi, Germano Mwabu, Alice Ng’ang’a and Justin Sandefur. 2018. “Experimental Evidence on Scaling Up Education Reforms in Kenya,” *Journal of Public Economics*, December. (IDEAS) (Science Direct)

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

Baez, Javier E., Adriana Camacho, Emily Conover, Román Andrés Zárate, 2012. “Conditional Cash Transfers, Political Participation, and Voting Behavior,” IZA Discussion Papers 6870, Institute for the Study of Labor (IZA). (IDEAS)

\*\* Andersen, Jørgen Juel, Niels Johannesen, and Bob Rijkers. 2020. “Elite Capture of Foreign Aid: Evidence from Offshore Bank Accounts,” Policy Research Working Paper #9150, World Bank. (WB) (JSTOR)

### Tentative Schedule:

Month	Tues	Thurs	Classes	Detail
1 August	28		I. Introduction	Intro to course (gapminder.org/tools; Lucas calculation)
2		30	II. Education	Intro; Externalities; What is r-g? (lecture notes)
3 September	5		"	Comp Statics; Cost Eff. (Dhaliwal); Nudge (Jensen)
4		7*	"	Nudge again: the misallocation triangle (lect. notes)
5	12		"	Duflo Indonesia (I & II)
6		14	"	Quality; Persistence (Galor & Zeira)
7	19		III. Health	My Annual Reviews article + horizon triangle
8		21	"	"
9	26		IV. Borrowing	Borrowing constraints ('plow back'; Banerjee/Moll)
10		28	[pitch ideas for Yang's half]	
11 October	3		IV. (cont'd)	Panic (Diamond & Dybvig; Bleakley & Cowan)
12		5	V. Constraints	Institutions (Acemoglu & Robinson; Bleakley & Rhode)
13	10		"	2nd best (Gordon & Li) and formality
14		12**	"	Scaling up
	17		[no class today]	
15		19	Exam for part 1	

Notes: \* Asynchronous

\*\* Synchronous on zoom