



# **B.E. International Program**

## Faculty of Economics, Thammasat University



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### Course Outline

#### **EE468 Integrated Public Economics, Development and Political Economics**

Semester 2/2013 (January 13-May 3, 2014)

<b>Number of credits</b>	3 credits
<b>Lecture Time:</b>	Fridays, 11.00 AM - 2.00 PM
<b>Lecture Venue:</b>	Room 204, Faculty of Economics
<b>Instructor:</b>	Dr. Sommarat Chantararat
	Email: Sommarat.chantararat@anu.edu.au
	Office hours: Friday 2.00-3.00PM or by appointment

#### **Course Description**

Understanding the economic fundamentals of development problems lies at the heart of an effective policy design. The goal of this course is to integrate concepts in development, public and political economics with the tools that researchers and policy makers use to understand the incentives and institutions underlying key the development issues. It focuses on both theoretical interpretation and empirical estimation of economic models of individual, household, market and non-market institutions that relate to issues attracting both research and policy attention in the field.

The course has two main components. The first is a series of lectures on theoretical and empirical techniques. The second is a series of class discussions on some concrete empirical studies of development policies taken from high quality research around the world. Both components will be interwoven for each and every development issue considered, giving students ample opportunity to learn the foundations and directly apply them to constructively analyze the real-world policy design.

**Theme: Challenges in Global Poverty**

**Prerequisites:** EE311 and have completed at least 60 credits

## Learning outcomes

On successful completion of this course, students will be able to

1. Understand the economic tools necessary for development policy analysis
2. Apply these tools to design high quality research and to constructively analyse and design effective policy interventions

## Course structure

Following the first two weeks of review, each of the rest of the weeks will then be devoted to one development issue. The session will start with a lecture on theoretical and empirical foundations, following by an overview of related interventions from around the world and a class discussion on a policy case study.

Class	Date	Topics
Week 1	17 January	Overview of challenges in global poverty
Week 2	24 January	Empirical methods for development policy analysis
Week 3	21 February	Poverty traps and welfare dynamics <i>Case: Policy design in the presence of poverty traps</i>
Week 4	22 February (1-4pm, 303)	Nutrition <i>Case: Demand for food and calories in India</i>
Week 5	26 February (11-2pm, 60 yr)	Health <i>Case: De-worming program in Kenya</i>
Week 6	28 February	Catch up
7 March		Mid-term week
Week 7	14 March	Education <i>Case: School construction in Indonesia</i>
Week 8	21 March	Intra-household and gender discrimination <i>Case: Intrahousehold impacts of pension in South Africa</i>
Week 9	28 March	Catch up
Week 10	4 April	Land and agricultural policies <i>Guest lecturer: Assoc. Prof. Nipon Poapongsakorn (TDRI)</i>
Week 11	11 April	Risk, saving and insurance <i>Case: Weather index insurance for poor farmers</i>
Week 12	18 April	Corruption, institution and politics <i>Guest lecturer: Assoc. Prof. Sirilaksana Khoman (NACC)</i>
Week 13	25 April* (Need to change to afternoon)	Credit <i>Case: Biometric technology in Malawian rural credit market</i>
Week 14	7 May*	Student presentation
Week 15	7 May*	Student presentation

## Readings

The main textbook for this course is Banerjee, A. and E. Duflo (2011). Poor Economics. Public Affairs. It provides motivating non-technical empirics of all the topics considered in class. You are strongly encouraged to read especially the assigned chapters. Another recommended book for references of up-to-date policy research is Banerjee, A., R.Benabou and D.Mookherjee (2006). Understanding Poverty. Oxford University Press.

Class materials will also be drawn from leading journal articles. The full lists provide great references for each topic. They will be helpful for your research assignment. The required readings are marked with (\*). The in-class case study for each week will be drawn from the article marked with (\*\*). You are required to read them before the class each week. All articles are available at our course website.

### Week 1: Overview of challenges in global poverty

Concepts: Key development indicators

Suggested readings: Chapter 1

- \*Banerjee, A. and E.Duflo (2007). The Economic Lives of the Poor. Journal of Economic Perspectives 21(1):141-167.
- World development indicators (2013). World Bank.  
<http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf>

### Week 2: Empirical Methods for development policy analysis

Concepts: Experiment and non-experiment approaches in casual inference and policy impact evaluation

Suggested readings:

- \*Deaton, A (2009). Instruments of Development: Randomization in the Tropics and the Search for the Elusive Keys to Economic Development. NBER Working Paper 14690.
- Duflo, E., R.Glennerster and M.Kremer (2008). Using Randomization in Development Economics Research: A Toolkit. Handbook of Development Economics Volume 4. T. P. Schultz and J.Strauss. Amsterdam, North-Holland: 3895-3962
- Gertler, P., S.Martinez, P.Premand, L.Rawlings, and C.Vermeersch. 2011. Impact Evaluation in Practice. Washington DC: World Bank.
- Imbens, G. and J.Wooldridge. 2009. Recent Developments in the Econometrics of Program Evaluation. Journal of Economic Literature 47(1): 5-86.
- \*Ravallion, M. 2001. The Mystery of Vanishing Benefits: An Introduction to Impact Evaluation. World Bank Economic Review 15(1): 115-140.

### **Week 3: Poverty traps and welfare dynamics**

Development policy questions: Why can't some poor get ahead from falling behind? How can we explain theoretically and empirically the observed 'trap' of persistent poverty? What does this imply about the static Vs. dynamic measures of poverty? How can we design appropriate policy in the presence of poverty traps?

In-class case study: Policy design and targeting in the presence of poverty traps

Suggested readings: Chapter 1,9

- \*Adato, M., M.Carter and J.May (2006). Exploring Poverty Traps and Social Exclusion in South Africa Using Qualitative and Quantitative Data. *Journal of Development Studies* 42(2): 226-247.
- \*\*Barrett, C. and M.Carter (2012). *The Economics of Poverty Traps and Persistent Poverty: Policy and Empirical Implications*. Working paper, Cornell University.
- \*Carter, M. and C. Barrett (2006). *The Economics of Poverty Traps and Persistent Poverty: An Asset-based Approach*. *Journal of Development Studies* 42(2): 178-199.
- Carter, M., P.Little, T.Mogues and W.Negatu (2007). Poverty Traps and Natural Disasters in Ethiopia and Honduras. *World Development* 35(5): 835-856.
- Chantarat, S. and C.Barrett (2012). Social Network Capital, Economic Mobility and Poverty Traps. *Journal of Economic Inequality* 10(3): 299-342.

### **Week 4: Nutrition**

Development policy questions: Is the poor's low productivity resulted from their poor nutritional status and vice versa? What determines the poor's demand for food? Is there interrelationship between nutrition intake and productivity that could lead to the vicious circle of nutrition based poverty trap? What does this imply about the policy designed to improve nutrition and/or income among the poor?

In-class case study: Demand for food and calories in India

Suggested readings: Chapter 2

- Behrman, J. and A.Deolalikar (1987). Will Developing Country Nutrition Improve with Income? A Case Study for Rural South India. *Journal of Political Economy* 95(3): 492.
- \*Deaton, A. and J.Drèze (2009). Food and Nutrition in India: Facts and Interpretations. *Economic and Political Weekly* 44(7):42-65.
- \*\*Subramanian, S., and A.Deaton (1996). The Demand for Food and Calories. *Journal of Political Economy* 104 (1): 133-162.

## **Week 5: Health**

Development policy questions: What explains the poor's underinvestment in health? What is the relationship between health and economic development, and how can we estimate interrelationships between health and key economic outcomes empirically? What does this imply for policies aimed at increasing health investment and improving health outcomes for the poor?

In-class case study: De-worming program in Kenya

Suggested readings: Chapter 3

- Banerjee, A., A.Deaton, and E.Duflo (2004). Wealth, Health, and Health Services in Rural Rajasthan. *American Economic Review* 94(2):326-330.
- Gertler, P. and J.Gruber (2002). Insuring Consumption Against Illness. *American Economic Review* 92(1):51-70.
- Gertler, P (2004). Do Conditional Cash Transfers Improve Child Health? Evidence from PROGRESA's Control Randomized Experiment. *American Economic Review* 94(2): 336-341.
- \*\*Miguel, E. and M.Kremer (2004). Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities. *Econometrica* 72 (1):159-217.
- \*Strauss, J. and D.Thomas (1998). Health, Nutrition, and Economic Development. *Journal of Economic Literature* 36(2):766-817.

## **Week 6: Education**

Development policy questions: What explains persistence in inequality in education and how is this related to income inequality? Is education always good for the poor? What are social and private returns to education, and how can we estimate these empirically? What can we learn from the policy evaluation literature on designing effective policies to enhance access and returns to education for the poor?

In-class case study: School construction in Indonesia

Suggested readings: Chapter 4

- Banerjee, A., S.Cole, E.Duflo, and L.Linden (2007). Remediating Education: Evidence from Two Randomized Experiments in India. *Quarterly Journal of Economics*, 122(3):1235–64.
- \*\*Duflo, E (2001). Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment. *American Economic Review* 91(4):795–813.

- Glewwe, P (2002). Schooling and Skills in Developing Countries: Education Policies and Socioeconomic Outcomes. *Journal of Economic Literature* 40:436-482.
- \*Kremer, M (2003). Randomized Evaluations of Educational Programs in Developing Countries: Some Lessons. *American Economic Review* 93(2):102-106.
- Schultz, T (2004). School Subsidies for the Poor: Evaluating the Mexican Progresa Poverty Program. *Journal of Development Economics*, 74(1):199–250.

### **Week 7: Intrahousehold and gender discrimination**

Development policy questions: Why do we observe heterogeneous economic outcomes across members within a household? How can collective, bargaining and discriminating decisions within a household contribute to these inequality? How can we test these empirically? What does this imply for effective policy targeting?

In-class case study: Intrahousehold impacts of cash transfer to elderly in South Africa

Suggested readings: Chapter 5

- \*Alderman, H., P.Chiappori, L.Haddad, J.Hoddinott and R.Kanbur (1995). Unitary Versus Collective Models of the Household: Is It Time To Shift The Burden of Proof? *World Bank Research Observer*.
- Dercon, S. and P.Krishnan (2000). In Sickness and in Health: Risk Sharing within Households in Rural Ethiopia. *Journal of Political Economy* 108(4):688-727.
- \*\*Duflo, E (2003). Grandmothers and Granddaughters: Old-Age Pensions and Intrahousehold Allocation in South Africa. *World Bank Economic Review* 17(1):1-25.
- \*Qian, N. (2008). Missing Women and the Price of Tea in China: The Effect of Relative Female Income on Sex Imbalance. Working Paper, Yale University.
- \*Sen, A. (1990). More than 100 Million Women are Missing. *The New York Review of Books* 37 (20).

### **Week 8: Risk, Saving and Insurance**

Development policy questions: How can the poor smooth their consumption in the presence of risks? What and how effective are the poor's existing formal and informal risk management mechanisms? How can we test these empirically? Should and how can we create or enhance markets for saving and insurance for the poor?

In-class case study: Weather index insurance for poor farmers in low-income countries

Suggested readings: Chapter 6,7

- \*\*Barrett, B., B.Barnett, M.Carter, S.Chantararat, J.Hansen, A.Mude, D.Osgood, J.Skees, C.Turvey and M.Ward (2007). Poverty Traps and Climate Risk: Limitation and Opportunities of Index-based Risk Financing. International Research Institute for Climate and Society Technical Report 07-02.
- \*Besley, T (1995). Savings, Credit and Insurance. Handbook of Development Economics Volume 3A. J. Behrman and T. Srinivasan. Amsterdam, Elsevier Science.
- Giné, X., and D.Yang (2009). Insurance, Credit, and Technology Adoption: Field Experimental Evidence From Malawi, Journal of Development Economics 89(1):1-11.
- \*Paxson, C (1992). Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand. American Economic Review 82(1): 15-33.
- \*Townsend, R (1994). Risk and Insurance in Village India. Econometrica 62: 539-591.

## **Week 9: Credit**

Development policy questions: Why does formal credit fail to reach the poor? Why has targeted lending organized by the government not worked? Why do the poor borrow from local moneylenders at very high rates? What is the economics of microfinance? Will microcredit really help the poor?

In-class case study: Using biometric technology in rural credit market in Malawi

Suggested readings: Chapter 7

- Armendáriz, B. and J.Morduch (2010). The Economics of Microfinance. The MIT Press.
- \*Banerjee, A., E.Duflo, R.Glennerster and C.Kinnan (2009). The Miracle of Microfinance? Evidence from a Randomized Evaluation. Mimeo, Jameel Poverty Action Lab.
- \*\*Giné, X., J.Goldber and D.Yang (forthcoming). Credit Market Consequences of Improved Personal Identification: Field Experimental Evidence from Malawi. American Economic Review.
- Giné, X., P.Jakiela, D.Kalan and J.Morduch (2010). Microfinance Games. American Economic Journal: Applied Economics, 2(3).
- \*Karlan, D. and J.Zinman (2008). Credit Elasticities in Less Developed Countries: Implications for Microfinance. American Economic Review 98 (3):1040-1068.

- Morduch, J (1999). The Microfinance Promise. Journal of Economic Literature 37(4):1569-1614.

## **Week 10: Land and agricultural policies**

Development policy questions: Does land reform work? What are barriers to and what can be done to stimulate technological adoptions among smallholders? What are economics and political economics of land and agricultural policies in developing countries?

In-class case study: Land and agricultural policies in Thailand by Assoc. Prof. Nipon Poapongsakorn (TDRI)

Suggested readings:

- \*Banerjee, A., P.Gertier and M.Ghatak (2002). Empowerment and Efficiency: Tenancy Reform in West Bengal. Journal of Political Economy 110(2): 239-280.
- \*Conley, T, and C.Udry (2010). Learning About a New Technology: Pineapple in Ghana. American Economic Review 100(1):35-69.
- \*Feder, G., R.Just, and D.Zilberman (1985). Adoption of Agricultural Innovations in Developing Countries: A Survey. Economic Development and Cultural Change 33(2): 255-298.
- Foster, A. and M.Rosenzweig (1995). Learning By Doing and Learning from Others: Human Capital and Technical Change in Agriculture. Journal of Political Economy 103(6):1176-1209.
- Mahul O. and C.Stutley (2010). Government Supports to Agricultural Insurance: Challenges and Opportunities in Developing Countries. The World Bank Group, Washington D.C.

## **Week 11: Disasters and international aid**

Development policy questions: What might be impacts of disasters and economic development? How might the poor manage disaster risks? What are institutions and politics behind disaster risk financing and insurance in developing countries?

In-class case study: Disaster risk financing and insurance in developing countries by Dr. Olivier Mahul (The World Bank)

Suggested readings:

- World Bank (2010). Natural Hazards, UnNatural Disasters: The Economics of Effective Prevention. The World Bank Group, Washington D.C.
- Cummins and Mahul (2009). Catastrophic Risk Financing in Developing Countries: Principles for Public Interventions

## **Week 12: Corruption, institutions and politics**

Development policy questions: How might corruption, institutions and politics affect development? Why might corruption arise in the economy? What can be done?

In-class case study: Corruption in Thailand by Ass. Prof. Sirilaksana Khoman (NACC)

Suggested readings: TBA

### **Course Evaluation**

Your grade for the course will be based on the following:

<b>Type of evaluation</b>	<b>Grade</b>	<b>Due date</b>
Problem sets	20%	TBA
In-class policy discussion	20%	TBA
Research proposal and presentation	30%	May 2
Final exam	30%	May 18

#### ***Problem sets***

There will be 3 problem sets. Problem sets will cover theoretical interpretation exercise, constructive analysis of development policies and some empirical estimation exercises using Stata program and data sets from seminal articles. Working on problem sets will give you an opportunity to review the materials presented during class, and to prepare yourself for the final exam. Collaboration with others is allowed and indeed encouraged, but your submission must reflect a good deal of individual effort. The 2 highest scores out of 3 problem sets will be counted 10% each toward the maximum of 20% of your total grade.

#### ***In-class policy discussion***

The goal of this assignment is to enhance your learning through interactive discussions especially on how the tools learned in class can be applied to constructively analyse high-quality research. Depending on the class size, you will be assigned in 7 groups. Everyone is required to read and discuss to form collective understanding of the case study in each week following the third week. One group will also be assigned to make

15-minute presentation of the case study to the class. The grade for this task will be based on i) the group's assigned presentation and ii) participations in weekly discussion.

### ***Research proposal***

The goal of this assignment is to give you an opportunity to apply foundations learned in class to design a policy intervention and to formulate rigorous research methodology to assess its potential effectiveness in resolving a development problem of your interest.

In this exercise, you will need to choose a development problem and a possible underlying cause that interests you from the course outline (for example, missing credit and insurance market for the poor due to high contract cost, underinvesting in health by the poor due to limited supply of health care, low adoption of technology by the poor due to uninsured risk, etc). You will then need to conduct literature review on the issue and write a research proposal to propose a specific, testable policy intervention that you think will have good promise to resolve the issue considered. As a researcher or policy maker, ability to write constructive policy research proposals is critical in order to secure the necessary funding and supports to push forward the implementation of good policies to really make a difference!

The research proposal you need to write will consist of five components.

1. Motivations: describe the microeconomic foundations of the problem, provide literature review on the empirical evidence, the effectiveness of available policy interventions and the arguments why you think your proposed intervention could hold good promise in resolving the problem.
2. Description of policy intervention: explain your proposed intervention in some detail. What is the intervention? Where and how would you implement it? Who would be the targeted implementer and beneficiary? And what potential impacts do you expect? Your proposed intervention needs to be as specific as, for example, piloting rainfall insurance to insure poor farmer's income from drought in Bangladesh.
3. Research question and hypothesis: describe how you would design research to evaluate the proposed intervention. What are the hypothesis to be tested? What are the relevant outcome variables to be tested?

4. Research design: Would you use non-experiment with secondary data or a randomized experiment to assess the program, and why? What primary (or secondary) data might you need to collect? What empirical model and method might you use to estimate the program's effectiveness and so test the hypothesis? Note that you do not need to conduct the actual analysis but make sure that the secondary data you refer to exist!
5. Expected outcomes: describe the expected outcomes and the potential challenges you might face in implementing this research.

You are strongly encouraged to discuss your intervention with me before embarking on your research proposal. Some example of policy research proposals are available on the course website.

A sentence description of your proposed choice of intervention is due in class on March 21 and a soft copy of your full proposal is then due on May 2. The write up should not exceed 2,500 words or an equivalent of five pages, in 12-point font with 2.5 cm margins. The grade for this task will be based on i) demonstrated understanding of the problem, ii) rigor and clarity of the proposal, iii) feasibility of the proposed research and intervention and iv) originality of the idea.

### ***Presentation***

In addition to the write up, you are required to give 15 minute presentation of your policy research proposal to the class. The presentations will take place in class on May 7. The exact schedule will be randomised and distributed in class soon after I receive everyone's choice of intervention. There will also be time allotted for questions and discussions to allow the class to challenge your proposal!

In your presentation, you should cover the five components in the proposal. Be sure to clearly explain your proposed intervention, why and how you think it holds good promise for improvement in the lives of the poor. You should prepare to defend your idea from criticism and address questions from the class. You will be assessed both by me and your classmates. In specific, you each will get to score all your classmates' presentations based on a specific set of assessment criteria to be distributed in class. All proposals submitted on May 2 will be distributed to everyone during that weekend for careful readings and assessments.

### ***Final exam***

There will be a 3-hour final examination during the examination period (exact date to be announced). Everything discussed in class and all reading marked with asterisk are testable. Working on weekly problem sets is the best way to prepare yourself for the exam.

### **Important Dates**

Class Begins	January 13, 2014
Adding and Dropping Course	January 13-27, 2014
Midterm Exam Period	March 3-8, 2014 (No Lectures)
Course Withdrawal with “W”	March 19-24, 2014
Class Ends	May 3, 2014
Final Exam	May 18, 2014 9.00 AM – 12.00PM