

## Development Economics II: Market Failures, Poverty Traps and Development

**Lecturers:** Laia Navarro-Sola (IIES), Laura Montenbruck (SU), Andreas Madestam (SU), Jakob Svensson (IIES), Konrad Burchardi (IIES), Céline Zipfel (SSE), Tessa Bold (IIES), Anna Tompsett (SU)

**Course Coordinator:** Konrad Burchardi (IIES)

**Course Objectives:** The objective of the course is to (1) help you coming up with interesting and original research ideas and (2) acquire methodological skills (both theoretical and empirical) that are essential in the field. We will work towards that goal by giving an overview of existing research on a number of aspects of economic development and discuss that research during lectures. In order for our discussions to be as fruitful as possible, you are required to complete a number of assignments before each lecture. In particular, you are always required to read a number of papers. Please check the attached course syllabus for the assignments and their associated deadlines.

We would also like you all to develop a research proposal. To that end, we would like you to first submit a short micro-proposal (a few lines) by the 28th of November via email to Konrad. We will then assign you to one of us as a mentor, maximising the topic match. With the help of your ‘mentor’, we would then like you to produce slides for a proposal workshop where you present your research proposal. This will be held towards the end of January (exact day to be determined). By this time you should present a concrete idea, along the lines of what is described here: <https://ocw.mit.edu/courses/14-771-development-economics-fall-2021/pages/research-proposal/>. The workshop will serve to provide you with feedback from all of us. Last, we would like you to submit the written research proposal by the middle of February.

Development economics is a vast and heterogeneous field. Our development economics sequence will cover most of the major topics in the field, although they are not the exhaustive list of development economics research agenda. In each quarter, the course consists of nine 3-hour lectures. In Development II, the focus will be on studying market failures relevant to development contexts and poverty traps that arise from those. An overview is below, and a provisional reading list follows.

**Lecture 1** Labour (Laia Navarro Sola, IIES)

**Lecture 2** Public (Laura Montenbruck, SU)

**Lecture 3** Firms (Andreas Madestam, SU)

**Lecture 4** Agriculture Micro (Jakob Svensson, IIES)

**Lecture 5** Credit Micro (Konrad Burchardi, IIES)

**Lecture 6** Poverty Traps (Céline Zipfel, SSE)

**Lecture 7** Insurance (Tessa Bold, IIES)

**Lecture 8** Environment (Anna Tompsett, SU)

**Lecture 9** Market Integration and Infrastructure (Anna Tompsett, SU)

### Method of Evaluation:

20% **Course participation**, which may include but is not limited to presentation of empirical papers, referee reports, reports on seminar presentations, replications, problem sets or other assignments.

20% **Research Proposal**.

60% **Written exam** on the content of the literature covered in class.

**Mode of Teaching:** All lectures will be in person. Please check the schedule for times and locations schedule. Note that the lecture given by Céline Zipfel will be at SSE, while all other lectures will be at SU.

## Lecture 1: Labour

Lecture by Laia Navarro-Sola

### Assignments:

- i. Select a recent (unpublished) job market paper from the list below. Please register your choice on Athena. Your individual presentation may either summarize the paper (15 minutes), or discuss the paper (5 to 10 minutes). Coordinate with your peers to ensure that each paper has a discussant, allowing us to engage in a critical evaluation of each paper.
- ii. There are no required readings before the lecture.

### Further Readings

- [1] G. Abebe, A. S. Caria, and E. Ortiz-Ospina, “The Selection of Talent: Experimental and Structural Evidence from Ethiopia,” *American Economic Review*, vol. 111, no. 6, pp. 1757–1806, Jun. 2021, ISSN: 0002-8282. DOI: 10.1257/aer.20190586. (visited on 07/25/2024).
- [2] G. Abebe, S. A. Caria, M. Fafchamps, P. Falco, S. Franklin, S. Quinn, and F. J. Shilpi, “Matching frictions and distorted beliefs: Evidence from a job fair experiment,” Working Paper, Working Paper 958, 2023. (visited on 10/26/2024).
- [3] L. Alfonsi, O. Bandiera, V. Bassi, R. Burgess, I. Rasul, M. Sulaiman, and A. Vitali, “Tackling Youth Unemployment: Evidence From a Labor Market Experiment in Uganda,” *Econometrica*, vol. 88, no. 6, pp. 2369–2414, 2020, ISSN: 1468-0262. DOI: 10.3982/ECTA15959. (visited on 10/26/2024).
- [4] E. Breza, S. Kaur, and Y. Shamdasani, “Labor Rationing,” *American Economic Review*, vol. 111, no. 10, pp. 3184–3224, Oct. 2021, ISSN: 0002-8282. DOI: 10.1257/aer.20201385. (visited on 10/26/2024).
- [5] R. Jensen, “Do Labor Market Opportunities Affect Young Women’s Work and Family Decisions? Experimental Evidence from {India},” *The Quarterly Journal of Economics*, vol. 127, no. 2, pp. 753–792, 2012, ISSN: 0033-5533 1531-4650. DOI: 10.1093/qje/qjs002.
- [6] S. Kaur, “Nominal Wage Rigidity in Village Labor Markets,” *American Economic Review*, vol. 109, no. 10, pp. 3585–3616, Oct. 2019, ISSN: 0002-8282. DOI: 10.1257/aer.20141625. (visited on 10/26/2024).

### Job Market Papers for presentation:

- [1] L. Alfonsi, M. Namubiru, and S. Spaziani, “Meet Your Future: Experimental Evidence on the Labor Market Effects of Mentors,” 2023.
- [2] L. Cefala, P. Naso, M. Ndayikeza, and N. Swanson, “Under-training by Employers in Informal Labor Markets: Evidence from Burundi,” 2024.
- [3] A. Donald and F. Grosset-Touba, “Complementarities in Labor Supply: How Joint Commuting Shapes Work Decisions,” 2024.
- [4] L. Ho, S. Jalota, and A. Karandikar, *Bringing Work Home: Flexible Arrangements as Gateway Jobs for Women in West Bengal*, Working Paper, 2024.
- [5] M. Pecenco, C. Schmidt-Padilla, and H. Taveras, “Opportunities and Entrepreneurship: Evidence on Advanced Labor Market Experience,” 2024.

## Lecture 2: Public

Lecture by Laura Montenbruck

### Assignments:

- i. You are expected to read the required readings before the lecture.
- ii. For each required reading, submit one to three questions / issues that were unclear / things you would like to discuss to Laura by noon the day before the lecture.

### Required Readings

- [1] P. Balán, A. Bergeron, G. Tourek, and J. L. Weigel, “Local Elites as State Capacity: How City Chiefs Use Local Information to Increase Tax Compliance in the Democratic Republic of the Congo,” *American Economic Review*, vol. 112, no. 3, pp. 762–97, 2022.
- [2] A. Bergeron, G. Tourek, and J. L. Weigel, “The State Capacity Ceiling on Tax Rates: Evidence From Randomized Tax Abatements in the DRC,” *Econometrica*, vol. 92, no. 4, pp. 1163–1193, 2024.
- [3] J. Knebelmann and V. Pouliquen, “Discretion Versus Algorithms: Bureaucrats and Tax Equity in Senegal,” 2023, Working Paper.
- [4] O. Okunogbe, “Becoming Legible to the State,” 2021, World Bank Policy Research Working Paper 9852.

### Further Readings

- [1] S. Aman-Rana and C. Minaudier, “Spillovers in State Capacity Building: Evidence from the Digitization of Land Records in Pakistan,” 2024, Working Paper.
- [2] M. C. Best, A. Brockmeyer, H. J. Kleven, J. Spinnewijn, and M. Waseem, “Production Versus Revenue Efficiency With Limited Tax Capacity: Theory and Evidence From Pakistan,” *Journal of Political Economy*, vol. 123, no. 6, pp. 1311–1355, 2015.
- [3] A. Brockmeyer, F. Garfias, and J. C. Suárez Serrato, “The Fiscal Contract up Close: Experimental Evidence from Mexico City,” 2024, NBER Working Paper No. w32776.
- [4] A. Q. Khan, A. I. Khwaja, and B. A. Olken, “Tax Farming Redux: Experimental Evidence on Performance Pay for Tax Collectors,” *The Quarterly Journal of Economics*, vol. 131, no. 1, pp. 219–271, 2016.
- [5] L. Montenbruck, “Fiscal Exchange and Tax Compliance: Strengthening the Social Contract Under Low State Capacity,” 2023, Working Paper.
- [6] J. Naritomi, “Consumers as Tax Auditors,” *American Economic Review*, vol. 109, no. 9, pp. 3031–3072, 2019.
- [7] J. L. Weigel and E. Kabue Ngindu, “The Taxman Cometh: Pathways out of a low-capacity trap in the Democratic Republic of the Congo,” *Economica*, vol. 90, no. 360, pp. 1362–1396, 2023.

## Lecture 3: Firms

Lecture by Andreas Madestam

### Assignments:

\* You are expected to read the required readings before the lecture.

### Required Readings

- [1] A. Adhvaryu, N. Kala, and A. Nyshadham, “Management and Shocks to Worker Productivity,” *Journal of Political Economy*, vol. 130, no. 3, pp. 754–791, 2022.
- [2] A. Banerjee and E. Duflo, “Reputation Effects and the Limits of Contracting: A Study of the Indian Software Industry,” *Quarterly Journal of Economics*, vol. 115, no. 3, pp. 989–1017, 2000.
- [3] N. Bloom, B. Eifert, A. Mahajan, D. McKenzie, and J. Roberts, “Does Management Matter? Evidence from India,” *Quarterly Journal of Economics*, vol. 128, no. 1, pp. 1–51, 2013.
- [4] J. Cai and A. Szeidl, “Interfirm Relationships and Business Performance,” *Quarterly Journal of Economics*, vol. 133, no. 3, pp. 1229–1282, 2018.
- [5] R. Macchiavello and A. Morjaria, “Competition and Relational Contracts in the Rwanda Coffee Chain,” *Quarterly Journal of Economics*, vol. 136, no. 2, pp. 1089–1143, 2021.
- [6] J. McMillan and C. Woodruff, “Interfirm Relationships and Informal Credit in Vietnam,” *Quarterly Journal of Economics*, vol. 114, no. 4, pp. 1285–1320, 1999.
- [7] J. Tirole, “A Theory of Collective Reputations (with Applications to the Persistence of Corruption and to Firm Quality),” *Review of Economic Studies*, vol. 63, no. 1, pp. 1–22, 1996.

### Further Readings

- [1] D. Atkin, A. Chaudhry, S. Chaudry, A. K. Khandelwal, and E. Verhoogen, “Organizational Barriers to Technology Adoption: Evidence from Soccer-Ball Producers in Pakistan,” *Quarterly Journal of Economics*, vol. 132, no. 3, pp. 1101–1164, 2017.
- [2] D. Atkin, A. K. Khandelwal, and A. Osman, “Exporting and Firm Performance: Evidence from a Randomized Trial,” *Quarterly Journal of Economics*, vol. 132, no. 2, pp. 551–615, 2017.
- [3] M. Burkart, F. Panunzi, and A. Shleifer, “Family Firms,” *Journal of Finance*, vol. 58, no. 5, pp. 2167–2202, 2003.
- [4] C.-T. Hsieh and B. Olken, “The Missing Middle,” *Journal of Economic Perspectives*, vol. 28, no. 3, pp. 89–108, 2014.
- [5] E. Verhoogen, “Firm-Level Upgrading in Developing Countries,” *Journal of Economic Literature*, vol. 61, no. 4, pp. 1410–1464, 2023.

## Lecture 4: Agriculture Micro

Lecture by Jakob Svensson

### Assignments:

- i. You are expected to read the required readings before the lecture.
- ii. Pick three papers from the required and/or further reading list. Identify possible extensions, alternative approaches to address the research questions posed, or any new ideas that arose while reading the papers. Rather than preparing a presentation, plan to share your thoughts informally in class during our discussion.

### Required Readings

- [1] L. F. Bergquist and M. Dinerstein, “Competition and entry in agricultural markets: Experimental evidence from kenya,” *American Economic Review*, vol. 110, no. 12, pp. 3705–3747, 2020.
- [2] T. Bold, S. Ghisolfi, F. Nsonzi, and J. Svensson, “Market access and quality upgrading: Evidence from four field experiments,” *American Economic Review*, vol. 112, no. 8, pp. 2518–2552, 2022.
- [3] M. Burke, L. F. Bergquist, and E. Miguel, “Sell low and buy high: Arbitrage and local price effects in kenyan markets,” *Quarterly Journal of Economics*, vol. 134, no. 2, pp. 785–842, 2018.
- [4] R. Jensen, “The digital divide: Information (technology), market performance, and welfare in the south indian fisheries sector,” *Quarterly Journal of Economics*, vol. 122, no. 3, pp. 879–924, 2007.
- [5] D. Karlan, R. Osei, I. Osei-Akoto, and C. Udry, “Agricultural decisions after relaxing credit and risk constraints,” *Quarterly Journal of Economics*, vol. 129, no. 2, pp. 597–652, 2014.

### Further Readings

- [1] ATAI, *Evidence for transformation: Atai framing paper*, <https://www.povertyactionlab.org/review-paper/evidence-transformation-atai-framing-paper>, 2019.
- [2] A. Banerjee, P. Gertler, and M. Ghatak, “Empowerment and efficiency: Tenancy reform in west bengal,” *Journal of Political Economy*, vol. 110, no. 2, pp. 239–280, 2002.
- [3] T. Bold, K. Kaizzi, J. Svensson, and D. Yanagizawa-Drott, “Lemon technologies and adoption: Measurement, theory and evidence from agricultural markets in uganda,” *Quarterly Journal of Economics*, vol. 132, no. 3, pp. 1055–1100, 2017.
- [4] W. Brooks and K. Donovan, “Eliminating uncertainty in market access: The impact of new bridges in rural nicaragua,” *Econometrica*, vol. 88, no. 5, pp. 1965–1997, 2020.
- [5] K. Burchardi, S. Gulesci, B. Lerva, and M. Sulaiman, “Moral hazard: Experimental evidence from tenancy contracts,” *Quarterly Journal of Economics*, vol. 134, no. 1, pp. 281–347, 2018.
- [6] D. Gollin, D. Lagakos, and M. Waugh, “The agricultural productivity gap,” *Quarterly Journal of Economics*, vol. 129, no. 2, pp. 939–994, 2014.

## Lecture 5: Credit Markets

Lecture by Konrad Burchardi

### Assignments:

- i. You are expected to read the required readings before the lecture.
- ii. For each required reading, submit three questions / issues that were unclear / things you would like to discuss to Konrad by noon the day before the lecture.

### Required Readings

- [1] A. Banerjee, D. Karlan, and J. Zinman, “Six randomized evaluations of microcredit: Introduction and further steps,” *American Economic Journal: Applied Economics*, vol. 7, no. 1, 2015.
- [2] D. Karlan and J. Zinman, “Observing unobservables: Identifying information asymmetries with a consumer credit field experiment,” *Econometrica*, vol. 77, no. 6, 2009.
- [3] S. de Mel, D. McKenzie, and C. Woodruff, “Returns to capital in microenterprises: Evidence from a field experiment,” *Quarterly Journal of Economics*, vol. 123, no. 4, pp. 1329–1372, 2008.

### Further Readings

- [1] M. Battaglia, S. Gulesci, and A. Madestam, “Repayment Flexibility and Risk Taking: Experimental Evidence from Credit Contracts,” working paper, Mar. 2019.
- [2] L. Beaman, B. T. D. Karlan, and C. Udry, “Selection into Credit Markets: Evidence from Agriculture in Mali,” working paper, 2020.
- [3] E. Breza and C. Kinnan, “Measuring the Equilibrium Impacts of Credit: Evidence from the Indian Microfinance Crisis,” working paper, Aug. 2020.
- [4] E. Field, R. Pande, J. Papp, and N. Rigol, “Does the classic microfinance model discourage entrepreneurship among the poor? Experimental evidence from India,” *American Economic Review*, vol. 103, no. 6, 2013.
- [5] R. Meager, “Understanding the Average Impact of Microcredit Expansions: A Bayesian Hierarchical Analysis of Seven Randomized Experiments,” *American Economic Journal: Applied Economics*, vol. 11, 1 Jan. 2019. [Online]. Available: <https://www.aeaweb.org/articles?id=10.1257/app.20170299>.

## Lecture 6: Poverty Traps

Lecture by Céline Zipfel

### Assignments:

- i. You are expected to read the required readings before the lecture.
- ii. For each required reading, submit three questions / issues that were unclear / things you would like to discuss to Céline by noon the day before the lecture.

### Required Readings

- [1] C. Balboni, O. Bandiera, R. Burgess, M. Ghatak, and A. Heil, “Why do people stay poor?” *The Quarterly Journal of Economics*, vol. 137, no. 2, pp. 785–844, 2022.

### Further Readings

- [1] O. Bandiera, R. Burgess, N. Das, S. Gulesci, I. Rasul, and M. Sulaiman, “Labor markets and poverty in village economies,” *The Quarterly Journal of Economics*, vol. 132, no. 2, pp. 811–870, 2017.
- [2] A. Banerjee, E. Dufo, and G. Sharma, “Long-term effects of the targeting the ultra poor program,” *American Economic Review: Insights*, vol. 3, no. 4, pp. 471–486, 2021.
- [3] M. Ghatak, “Theories of poverty traps and anti-poverty policies,” *World Bank Economic Review*, vol. 29, no. 1, pp. 77–105, 2015.

## Lecture 7: Insurance

Lecture by Tessa Bold

### Assignments:

- i. You are asked to read the required readings.
- ii. You are asked to prepare the following discussion questions and be ready to discuss them in class.
  1. What are the underlying assumptions in Townsend's risk-sharing test? How limiting are they?
  2. In what ways do limited commitment constraints affect the structure and effectiveness of informal insurance arrangements?
  3. How do the findings of Casaburi and Willis regarding time-based vs. state-contingent insurance payouts change our understanding of risk preferences and demand for insurance among smallholder farmers?

### Required Readings

- [1] L. Casaburi and J. Willis, "Time vs. state in insurance: Experimental evidence from contract farming in kenya," *The American Economic Review*, vol. 108, no. 12, pp. 3778–3813, 2018.
- [2] E. Ligon, J. P. Thomas, and T. Worrall, "Informal insurance arrangements with limited commitment: Theory and evidence from village economies," *The Review of Economic Studies*, vol. 69, no. 1, pp. 209–244, 2002.
- [3] R. M. Townsend, "Risk and insurance in village india," *Econometrica*, vol. 62, no. 3, pp. 539–591, 1994.

### Further Readings

- [1] T. Bold and T. Broer, "Risk sharing in village economies revisited," *Journal of the European Economic Association*, vol. 19, no. 4, pp. 2121–2166, 2021.
- [2] P. Dupas and J. Robinson, "Savings constraints and microenterprise development: Evidence from a field experiment in kenya," *American Economic Journal: Applied Economics*, vol. 5, no. 1, pp. 163–192, 2013.
- [3] L. Einav and A. Finkelstein, "Selection in insurance markets: Theory and empirics in pictures," *Journal of Economic Perspectives*, vol. 25, no. 1, pp. 115–138, 2011.
- [4] J. Haushofer, M. Chemin, C. Jang, and J. Abraham, "Economic and psychological effects of health insurance and cash transfers: Evidence from a randomized experiment in kenya," *Journal of Development Economics*, vol. 144, p. 102416, 2020.
- [5] P. Jakiela and O. Ozier, "Does africa need a rotten kin theorem? experimental evidence from village economies," *The Review of Economic Studies*, vol. 83, no. 1, pp. 231–268, 2016.

## Lecture 8: Environment

Lecture by Anna Tompsett

### Assignments:

- i. You are required to present a paper in either Lecture 8 or 9. I will post a sign-up sheet and instructions closer to the time.

### Required Readings

- [1] M. Greenstone and B. K. Jack, “Envirodevonomics: A research agenda for an emerging field,” *Journal of Economic Literature*, vol. 53, no. 1, 2015.
- [2] S. Jayachandran, “How economic development influences the environment,” Working paper, 2021.
- [3] M. Kremer, J. Leino, E. Miguel, and A. P. Zwane, “Spring cleaning: Rural water impacts, valuation, and property rights institutions,” *Quarterly Journal of Economics*, vol. 126, no. 1, 2011.

### Further Readings

- [1] L. W. Davis, “The effect of health risk on housing values: Evidence from a cancer cluster,” *American Economic Review*, vol. 94, no. 5, 2004.
- [2] M. Greenstone and R. Hanna, “Environmental regulations, air and water pollution, and infant mortality in India,” *American Economic Review*, vol. 104, no. 10, 2014.
- [3] G. Grossman and A. Krueger, “Economic growth and the environment,” *Quarterly Journal of Economics*, vol. 110, no. 2, 1995.
- [4] G. D. Hansen and E. C. Prescott, “Malthus to solow,” *American Economic Review*, vol. 92, no. 4, 2002.

## Lecture 9: Market Integration and Infrastructure

Lecture by Anna Tompsett

### Assignments:

- i. You are required to present a paper in either Lecture 8 or 9. I will post a sign-up sheet and instructions closer to the time.

### Required Readings

- [1] A. Banerjee, E. Duflo, and N. Qian, “On the road: Access to transportation infrastructure and economic growth in China,” *Journal of Development Economics*, vol. 145, 2020.
- [2] R. Burgess, R. Jedwab, E. Miguel, A. Morjaria, and G. P. i Miquel, “The value of democracy: Evidence from road building in Kenya,” *American Economic Review*, vol. 105, no. 6, 2015.
- [3] D. Donaldson, “Railroads of the Raj: Estimating the impact of transportation infrastructure,” *American Economic Review*, vol. 108, no. 4-5, 2018.
- [4] D. Donaldson and R. Hornbeck, “Railroads and American economic growth: A “market access” approach,” *Quarterly Journal of Economics*, 2016.

### Further Readings

- [1] K. Borusyak and P. Hull, “Non-random exposure to exogenous shocks,” *Econometrica*, vol. 91, no. 6, 2023.
- [2] T. Dinkelman, “The effects of rural electrification on employment: New evidence from South Africa,” *American Economic Review*, vol. 101, no. 7, 2011.
- [3] E. Duflo and R. Pande, “Dams,” *Quarterly Journal of Economics*, vol. 122, no. 2, 2007.