

December 2, 2007

Prof. Stephan Klasen  
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37073 Gottingen, Germany

Dear Professor Klasen:

I am writing to apply for the tenure-track professorship in Courant Research Centre “Poverty, Equity, and Growth in Developing and Transition Countries” as advertised in your email to Professor Michael Kremer. Currently I am an assistant professor in a new modern economics program at Shanghai University of Finance and Economics. I studied political economy (Ph.D. 2005) and statistics (M.A. 2004) at Harvard University under the direction of Professor Ken Shepsle.

My general research interests are in understanding and improving public policies on education, labor, and population in developing countries. I am also interested in the political economy of economic development. The following are some examples of my research.

[A]. One project I am currently engaged in is developing new policies to improve education outcomes in low-income countries. While many more children from these countries are now in school, the quality of their education is still a serious problem for poverty reduction, equity, and long-run economic development. There exists no easy solution. Pumping more money into the existing school system is necessary, but not sufficient to solve the problem. There is no strong evidence that more inputs (more teachers, free textbooks, new buildings, etc) help raise student achievements. Some education service programs are set up outside of the school system to help weak students. They typically involve voluntary or hired teacher aids. Such programs in urban Indian communities have been successful at a low cost. But for many poor rural communities with brain drain, they are hardly an option. Merit-based scholarships can be provided to motivate students to study (as is the case in Kenya), but weak students who need help most are least affected by such interventions.

I try to provide a new solution. In an on-going field experiment conducted in poor rural schools in China, where other types of education resources are seriously lacking, I design an innovative scholarship program which “pays” for peer interactions to improve education quality. The students compete for scholarship in paired teams, each of which consists of one strong student and one weak student. The winning criterion is based upon the improvement of the weak student in a pair. As a result, the strong student has incentive to help the weak student in his/her own team. Paying peers may even be more efficient than paying teachers or other aids, because peers know each other better and have close interactions. This, however, is an open question, and worth exploring in future researches.

The key element of my research is to design more efficient student interaction network to improve the quality of education. It is conventional wisdom that peers have a large influence on a student's educational outcome. Good peers are valuable education resources, just as good teachers are. Making better use of good peer influence is an area where positive economic analysis could help most. But so far economists' contributions are still very limited. Almost all efforts are spent on estimating credible peer influence. In joint work with Li Han (forthcoming in *Economics of Education Review*), I have also participated in this research agenda, and discovered some gender difference of peer influence in Chinese higher education. Through my own research, I find that the current understanding of peer influence is too mechanical. Good peers are treated as oxygen in the air – we do not pay for it, and it works in a natural way. But surely the level of good peer influence can be affected by the way social interactions are structured, and by economic incentives provided to peer interactions. This scholarship program offers a way for us to treat peer influence as a real economic resource. I am also actively exploring other incentive structures or even markets of peer influence to maximize the impact of the proposed program.

To answer these new research questions requires developing new theories and research methods along the way. My interdisciplinary background is a research asset in this respect. I already have three relevant publications, one in the economics of education, one in contract theory application (in political economy), and one in behavioral experiments. I expect to produce at least two high-quality research papers from this project.

[B]. A related project I am now engaged in is the political economy of migration policy. Rural migrants in China are denied access to the service of local public schools, unless they pay a high school fee. This is part of the status quo policy bias against migration. As a result, rural migrants either leave their children at home, or send them to low-quality private schools in large cities. Improving the education outcome for migrant children is an important policy objective of the central government. There are two policy choices: expanding public school enrollment or improving the low-quality private schools. It seems to me that the private school is a better long-term solution, because it reduces the local government's ability to set migration cap through restricting public school enrolment size.

One way to test my hypothesis is to exploit the result of a natural experiment. A few years ago, several metropolitan governments suddenly closed many migrant children schools on the ground that they did not meet government requirements. The governments transferred the affected students to local public schools for free. Even though these students can benefit from this policy change, private-school teachers and potential future students may be big losers. I plan to write one empirical research paper to evaluate this policy change.

If the central government truly wants to expand quality education to rural children, it should subsidize the migrant children's private schools in large cities through a

centralized voucher system. It should also set a national standard for these schools. Allowing the local government to set its own standard is harmful. These intuitions still need carefully analysis in a theory paper.

[C]. I am at the final stage of completing a paper on the economics of family and old-age support, in which I challenge the textbook assumption that children are public goods of parents. Because women tend to marry earlier and live longer than men, for a substantial period of time children are private goods of the widows. As a result, women tend to invest more in children – a phenomenon which has been noticed by some economists but not yet been explained. This is particularly true in developing countries where children often provide most of their parents' old-age support. Men have less need for children also because young wives provide part of the husbands' old-age support. For men young wives are substitutes of children.

A new theory can be provided to explain spousal age gap, dowry size variation, and gender difference in fertility preference and intrahousehold resource allocation in a single framework. Using Chinese census data, I have found supportive evidence of my theory. My research implies that, contrary to established belief, female sex may have higher demand for children. This is particularly true in some countries where widows without sons live an extremely poor life. To reduce high fertility in poor countries, public policies need to pay special attentions to the widows' old-age support problem.

[D]. I have two working papers (both under journal review) on China's labor market and domestic migration policy. The abstracts can be found in my curriculum vitae. The papers are available upon request.

I have included a copy of my curriculum vitae. My letters of reference by Prof Ken Shepsle and Prof. Robert Bates have been sent to you under separate cover by Harvard University.

I am happy to provide you with any further information, and I look forward to hearing from you.

Respectfully,

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