

Development Economics II: Micro issues of economic development

Summer term 2012

Jun.-Prof. Dr. Jann Lay
GIGA Institute of Latin American Studies
Tel. 040 - 428 25-763, email: lay@giga-hamburg.de
OEC 2.241, Office hours: on appointment

Tutors:

Caroline Dotter, M. Sc.
Phone: 0551 39-7341, E-Mail: caroline.dotter@wiwi.uni-goettingen.de
Oec 2.201, Office hours: by appointment

Johannes Rieckmann, Dipl.Oec., M.A. Business Studies
Phone: 0551 39-13507, E-Mail: jriekmann@uni-goettingen.de
OEC 2.206, Office hours: by appointment

Nils-Hendrik Klann, M.A., Ph. D. Candidate
Phone: 0551 39-7300, E-mail: hhk@uni-goettingen.de
OEC 2.206, Office hours: by appointment

Lecture: Wednesdays 12.00-14:00 hrs, ZHG 002

Tutorial: Mondays 14-16 hrs, OEC 0.169, Thursdays 14-16 hrs, VG 1.101

Exam: 08.08.2012

This lecture focuses on the analysis of markets and households in developing countries. In this regard, particular attention is given to the investigation of poverty. After an introductory lecture on the measurement and interpretation of poverty, the following lectures concentrate on the consequences of poverty. In this context, famine, malnutrition, the situation of women, migration and unemployment, as well as population issues are discussed. Subsequently, the course deals with possible vicious circles of poverty in rural areas. Here, the main focus is on examining how missing or poorly functioning land, credit, insurance and labor markets can constitute vicious circles of poverty. In this connection, policy measures to combat these vicious circles are discussed. Finally, the course deals with education and health policy in developing countries and examines how these policies can contribute to overcoming poverty.

Requirements:

At the end of the term there will be a 120-minute exam. A second date will be offered at the end of the semester break. 6 credit points can be obtained.

Development Economics II does not build directly on Development Economics I. Therefore you can attend this lecture without previously having heard Development Economics I.

Structure and literature overview:

I.	Poverty	3
1.	Poverty and the MDGs	3
II.	The consequences of poverty	3
2.	Hunger and malnutrition	3
3.	The situation of women	3
4.	Population and poverty	4
5.	Migration and unemployment	5
III.	Vicious circles of poverty (in rural areas)	5
6.	Land	5
7.	Credit Markets	5
8.	Insurance Markets	6
9.	Malnutrition and rural labor markets	6
10.	Informal urban labor markets	7
11.	Public policies to reduce poverty	7

Main textbooks:

Ray, D. (1998) Development Economics. Princeton: Princeton University Press.

Todaro, M.P and S.C. Smith (2009). Economic Development. Pearson.

Readings are available via StudIP. The literature marked with * is obligatory, the rest is recommended.
The relevant passages from Ray are always obligatory.

I. Poverty

1. Poverty and the MDGs

The key issues of development economics

Definition of poverty

Measurement and interpretation of poverty

Vicious circles of poverty

Readings:

Ray, Chapter 8

World Bank, World Development Report 2000/01, ch. 1*

Dreze, and Srinivasan (1997) Widowhood and Poverty in Rural India, *Journal of Development Economics* 54 (2): 217-234.*

Klasen, S. (2000) Measuring Poverty and Deprivation in South Africa, *Review of Income and Wealth*, 46 (1): 33-58.*

Sen (1983) Poor, Relatively Speaking, *Oxford Economic Papers* 35, 153-169.

Deaton, A. (1997): *The Analysis of Household Surveys*, World Bank Publications, ch. 4.3 (241-269).

Lipton, M. and M. Ravallion (1995) Poverty and Policy. *Handbook of Development Economics* Vol. 3b, ch. 41.

II. The consequences of poverty

2. Hunger and malnutrition

Causes of famine

Combating famine

Measurement and interpretation of malnutrition

Determinants of malnutrition

Readings:

Dreze, J. und Sen, A. (1991) *Hunger and Public Action*, Oxford University Press ch. 1*, 2*, 5*, 6*, 7*, 8*, 9, 13.

Sen, A. (1983) *Poverty and Famines*, Oxford University Press, ch. 4*, 5*, 6, 7, 9.

Klasen, S (2006) Poverty, undernutrition, and child mortality: some inter-regional puzzles. *Journal of Economic Inequality* 6(1), 89-115.*

Osmani S. (1990) Nutrition and the Economics of Food, in Dreze and Sen (1990) *The Political Economy of Hunger* Vol 1.

UNICEF (1998) *The State of the World's Children, 1998: Focus on Nutrition*, Oxford University Press for UNICEF.

Svedberg, Peter (1999) 841 Million undernourished?, *World Development* 27(12), 2081-2098.

Behrman and Deolalikar: *Health and Nutrition*. *Handbook of Development Economics* Vol. I ch. 14 (1988).

3. The situation of women

Excess female mortality

Models of intrahousehold resource allocation

Discrimination in education

Readings:

- Hill, M. A. and King, E. M. (1993) Women's Education in Developing Countries, The John Hopkins University Press, ch. 1, 2.
- Sen, Amartya (1990) Gender and Cooperative Conflicts, in: Tinker, Irene (Ed.): Persistent Inequalities, Oxford, pp. 123-149 *
- Klasen, S. (1994) Missing Women Reconsidered, World Development Vol. 22 (7), 1061-1071.
- Klasen, S. (1998) Marriage, Bargaining, and Intrahousehold Resource Allocation: Excess Female Mortality among Adults, Journal of Economic History, Vol. 58 (2), 432-467.
- Alderman, et al. (1996) Public Schooling Expenditures in Pakistan, in van der Walle and Nead (1996) Public Spending and the Poor, World Bank.
- Alderman et al. (1996) Decomposing the Gender Gap in Cognitive Skills in a poor Rural Economy, Journal of Human Resources 31: 229-254*
- Rosenzweig and Schultz (1982) Market Opportunities, Genetic Endowment, and Intrafamily Resources Allocation: Child Survival in Rural India, AER, Vol. 72 (4), 803-815.
- Thoman, Duncan (1989) Intrahousehold Resource Allocation: An Inferential Approach, Journal of Human Resources 25, 635-83.
- Klasen, S. and F. Lamanna (2008) The impact of gender inequality in education and employment on economic growth: updates and extensions, Ibero-America Working Paper, forthcoming in Feminist Economics.*
- Klasen, S. and C. Wink (2003) Missing Women: Revisiting the Debate, Feminist Economics Vol. 9 (2-3), 263-299.*
- Asfaw, A., Klasen, S. and F. Lamanna (2008) Intrahousehold health financing strategy and the gender gap in India, Ibero-America Institute Working Paper.
- Alderman and Gertler (1997) Family Resources and Gender Differences in Human Capital Investments in Haddad et al. (1997) Intrahousehold Resource Allocation in Developing Countries: Models, Methods, and Policy, Baltimore: Johns Hopkins Press. World Bank (2001): Engendering Development.

4. Population and poverty

- Costs and benefits of children
- Determinants of the supply of children
- Determinants of the demand for children
- The relevance of family planning

Readings:

- Ray, Chapter 9
- GPRS p. 212-219
- Schultz, TP (1993) Changing World Prices, Women's Wages, and the Fertility Transition in Sweden, JPE 93, 1126-1154.
- Bulatao and Lee (1983) Determinants of Fertility in Developing Countries, ch. 2*, 8 Caldwell (1981) The Mechanism of Demographic Change, Population Studies 35 (1981).
- Pollak and Watkins (1993) Cultural and Economic Approaches to Fertility, PDR 19 (3): 467-496.
- Murthi, Guio, and Dreze (1995) Fertility, Mortality, and Gender Bias in India: A District-Level Analysis, Population and Development Review 21 (4): 745-782.*
- Pritchett, L. (1994) Desired Fertility and the Impact of Population Policies, PDR 20 (1): 155.*
- Dreze and Murthi (2001) Fertility, Education, and Development: Evidence from India, Population and Development Review 27 (1): 33-63.
- Birdsall, N. (1988). Economic Approaches to Population Growth, in Handbook of Development Economics Vol. 1, ch. 12.

5. Migration and unemployment

The Harris-Todaro model
Policy implications
Testing the model empirically

Readings:

Ray, Chapter 10
Todaro, Chapters 7, 8
Hoddinott, J. (1996) 'Wages and Unemployment in an Urban African Labour Market' *Economic Journal* 106: 1610-1626.*
Kingdon, G. and J. Knight (1999) 'Unemployment and wages in South Africa', University of Oxford Working Paper Series N° 99-12.
Williamson, J: Migration and Urbanization (1988) *Handbook of Development Economics* Vol. 1, ch. 11.

III. Vicious circles of poverty (in rural areas)

6. Land

Land distribution
Share-cropping
Land markets

Readings:

Ray, Chapters 10, 12
Anseeuw, W.; Boche, M.; Breu, T.; Giger, M.; Lay, J.; Messerli, P.; Nolte, K. (2012). *The State of Large-Scale Land Acquisitions in the 'Global South'*. Analytical Report based on the Land Matrix Database. The Land Matrix Partnership.
Binswanger, Deininger, and Feder (1995) 'Power, Distortions, Revolt, and Reform in Agricultural Land Relations in Behrman, and Srinivasan (eds.) *Handbook of Development Economics*, Vol 3b, (1995).*
World Bank (1998) *World Development Report 1998/99*, ch. 5.
World Bank (2003) *Land Policies for Growth and Poverty Reduction*, World Bank.

7. Credit Markets

Informal credit markets
Access to credit markets for poor farmers
Grameen Bank

Readings:

Ray, Chapter 14
Udry, C. (1994) 'Risk and Insurance in a Rural Credit Market: An empirical investigation of Northern Nigeria', *Review of Economic Studies* 61: 495-526.*
Pitt and Khandker (1998) 'The Impact of Group-based Credit Programs on Poor Households in Bangladesh', *Journal of Political Economy* 106: 958-96.*
Khandker, Khalily, and Khan: *Grameen Bank*, World Bank Policy Research Paper 306, <http://books.google.de/books?id=rNN3Dfxcc3oC>.

World Bank, World Development Report 1998/99, ch. 6, 8*

Bell, C. (1988): Credit Markets and Interlinked Transactions. Handbook of Development Economics, Vol. 1, ch. 16

Besley, T. (1995). Savings, Credit, and Insurance. Handbook of Development Economics Vol. 3a, ch. 36.

Pitt, Kandhker, Chowdury, und Millimet (2001) Credit Programs for the Poor and Seasonality in rural Bangladesh. Journal of Development Studies 39:1-24.

8. Insurance Markets

The problem of risk

Possibilities and limits of insurance markets

Self-insurance

Insurance and savings

Readings:

Ray, Chapter 15

Morduch, J. (1995) Income Smoothing and Consumption Smoothing, Journal of Economic Perspectives 9: 103-114.

Deaton, A. (1997) Analysis of Household Surveys, World Bank, ch. 6.

Townsend, Robert M. (1995) Consumption Insurance: An Evaluation of Risk-bearing in Low-Income Journal of Economic Perspectives 9: 83-102.*

Townsend, Robert M. (1994) Risk and Insurance in Village India, Econometrica 62: 539-91. Economies.

Coate, S. and M. Ravallion (1993) Reciprocity without Commitment: Characterization and Performance of Informal Insurance Arrangements, Journal of Development Economics 40, 1-24.

Besley, T. (1995) Savings, Credit and Insurance, Handbook of Development Economics Vol. 3a, ch. 36.

World Bank (1998) World Development Report 1998/99 ch. 8*

9. Malnutrition and rural labor markets

Nutrition-related efficiency wages

Nutrition and poverty traps

Conceptual and empirical problems of the approach

Readings:

Ray, Chapter 13

Dasgupta (1997) Nutrition, the Capacity to Work and Poverty Traps, Journal of Econometrics 1997: 1-32.*

Deaton, A. (1997) Analysis of Household Surveys, World Bank, ch. 4.1*

Bliss, C. and N. Stern (1978a) Productivity, Wages and Nutrition, Part I: The Theory' Journal of Development Economics 5: 331-362.

----- (1978b) Productivity, Wages and Nutrition, Part II: Some Observations' Journal of Development Economics 5: 363-398.

Klasen and Woolard (1998) Unemployment, Household Formation, Poverty, and Nutrition in South Africa.*

Rosenzweig, M. (1988) Labor Markets in Low-Income Countries, Handbook of Development Economics Vol 1, ch. 15.

Strauss, J. and D. Thomas (1995) Human Resources, Handbook of Development Economics Vol. 3a, ch. 34.

10. Informal urban labor markets

The urban informal sector and self-employment

Micro enterprises

Readings:

de Mel, S., McKenzie, D. and Woodruff, C. (2008) 'Returns to Capital in Microenterprises: Evidence from a Field Experiment', *Quarterly Journal of Economics*, **123**, 1329–1372.

Yamada, G. (1996) 'Urban Informal Employment and Self-Employment in Developing Countries: Theory and Evidence', *Economic Development and Cultural Change*, **44**, 289–314.

Grimm, M., Knorringa, P., and Lay, J. (forthcoming). Constrained Gazelles: High Potentials in West Africa's Informal Economy. *World Development*.

11. Public policies to reduce poverty

Targeted use of public expenditure

Incidence analysis

DALYs and health interventions

Readings:

Castro-Leal (1996) South Africa: Public Education Spending and the Poor.

Selden, T, and M. Wasylenko (1996) Measuring the Distributional Impact of Public Education in Peru, in van de Walle and Neale (1996) Public Spending and the Poor.*

Van de Walle (1994) The Distribution of Subsidies through Public Health Services in Indonesia, 1978-1987. In van de Walle and Neale (eds.): Public Spending and the poor: Theory and Evidence.

Dhatt and Ravallion (1996) Is targeting through a work requirement efficient? In van de Walle and Neale (1996) Public Spending and the Poor.*

Schultz, T. Paul. (2004) School subsidies for the poor: evaluating the Mexican Progresa poverty program, *Journal of Development Economics* 74(1), 199-250.*

World Bank (1993) World Development Report 1993, Overview, Chapter 1-3*.

Anand and Hanson (1997) DALYs: A Critical Review, *Journal of Health Economics* (1997)*

Sen, Amartya (1996) The Political Economy of Targeting. Ch. 1, In van de Walle and Neale (eds.): Public Spending and the poor: Theory and Evidence.

Strauss, J. and D. Thomas (1995): Human Resources. *Handbook of Development Economics* Vol. 3a, ch. 34.

Chen, Evans, and Cash: Health as a Global Public Good, in Kaul, et al.: *Global Public Goods* (1999).