

## Development Economics I (31E15000)

Teacher: Dr. Miri Stryjan, teaching assistant (TA): Anna Holvio.

Period 1: 4.9 – 13.10, 2023

Course component	Time	Classroom
<b>12 Lectures:</b>	Mondays 13.15-15.00 Thursdays 10.15-12.00* <b>*NB: Lecture 6 is on WED 20.9</b>	Otakaari 1, U149 (U6) (Lecture 6 is in <b>U147 (U5)</b> )
<b>2 Exercise sessions:</b>	Friday 15.9 and Friday 29.9	Otakaari 1, U149 (U6)
<b>Exam</b>	Friday 20.10, 9-12	U142 (U4)
<b>Retake exam</b>	Wednesday 13.12, 9-12	U142 (U4)

### Course examination

The examination and final grade are based on 3 components:

- **Homework assignments (40 % of final grade):** there will be two bigger homework assignments, where students will practice and demonstrate skills learned in the course such as reading and critically evaluating academic papers and understanding empirical methods and types of data relevant for applied development economics.
- **Pre-class assignments (10 % of final grade, pass/fail)** submit at least 7 assignments.
- **Final Exam (50 % of final grade):** The exam and the retake exam will be given on site in Otaniemi. Separate registration is required for the Retake exam.  
**PLEASE NOTE: A passing grade on the course requires a passing score on the exam.**

<u>Overview of course schedule</u>		
<b>Part 1:</b> What is poverty, why does poverty exist and persist and what can explain the differences in growth and prosperity between countries?	Mon 4.9	<b>Lecture 1:</b> Introduction to the course and to Development Economics + concepts of poverty
	Thu 7.9	<b>Lecture 2:</b> Growth models and Development accounting
	Mon 11.9	<b>Lecture 3:</b> Misallocation and the fundamental factors of development
	Thu 14.9	<b>Lecture 4:</b> The Institutional approach to development 1: <i>Guest Lecture with Professor Kunal Sen, UNU-WIDER.</i>
	Fri 15.9	<b>Exercise session 1</b>
	Mon 18.9	<b>Lecture 5:</b> The Institutional approach to development 2
	WED 20.9	<b>Lecture 6:</b> Poverty measures and measurement
<b>Part 2:</b> A closer look at some important aspects of life for poor individuals/households/ firm owners in low-income countries of relevance to economics.	Mon 25.9:	<b>Lecture 7:</b> Livelihoods of the Poor: Small firms and Self Employment.
	Thu 28.9	<b>Lecture 8:</b> Credit for the poor, microfinance.
	Fri 29.9	<b>Exercise session 2</b>
	Mon 2.10	<b>Lecture 9: Rural livelihoods: Agriculture</b> <i>Guest lecture with Dr. Kalle Hirvonen from UNU-WIDER.</i>
	Thu 5.10	<b>Lecture 10:</b> Violence and conflict <i>Guest lecture with Professor Patricia Justino from UNU-WIDER.</i>
	Mon 9.10	<b>Lecture 11:</b> Health in low-income countries:
	Thu 12.10	<b>Lecture 12:</b> Technology adoption

## Detailed description of course

### Part 1: Introduction to the “big questions” of development economics.

#### Why does poverty exist and persist and what can explain the differences in growth and prosperity between countries?

In this part of the course, we will discuss theories of economic growth, as well as some of the newer theory areas in the literature that seek to explain why some countries are poorer than others: geography and institutions. In parallel with this, we will go over empirical tools such as regression analysis and methods related to causal estimation, primarily instrumental variable approaches, and difference-in-differences.

#### WEEK 1 (Mon 5.9, Thu 8.9)

##### **Lecture 1, Mon 4.9: Introduction to modern Development Economics + concepts of poverty**

Introduction of the course and teacher, plan for the course. Brief introduction to Development economics. We will discuss the concept of “poverty” and different definitions of who can be considered poor.

**Concepts:** GDP per capita, absolute and relative poverty, extreme poverty, poverty lines.

##### **Lecture 2, Thu 7.9: Growth models recap and Development accounting**

In this lecture we approach the question of “why some countries are poor and others rich” by revisiting the workhorse models for explaining economic growth, and how they can be connected to data on technological and human capital investments. We also discuss *development accounting*.

**Concepts:** Economic growth, neoclassical growth model, endogenous growth, growth accounting, development accounting.

#### WEEK 2 (Mon 12.9, Thu 14.9)

**Homework 1 handed out on Monday 11.9.**

##### **Lecture 3, Mon 11.9: Misallocation and the fundamental factors of development**

In the first part of the lecture, we discuss the TFP term in the aggregate production function we saw in lecture 2 and review recent research on misallocation as an explanation for cross country differences in growth.

In the second part of the Lecture, we discuss the “big theories”, that seek to explain such differences between countries, and some empirical challenges for testing those theories.

**Concepts:** Misallocation, productivity, proximal vs fundamental/deep causes of development, historical explanations, the role of geography for economic development.

##### **Lecture 4, Thu 14.9 : The Institutional approach to development 1:**

**Guest Lecture with Professor Kunal Sen, director of UNU-WIDER.**

The quality of institutions have recently been emphasized in both research and policy discussions as one of the important drivers of economic growth and development. This lecture introduces the institutional approach and some of its most prominent researchers and research papers.

**Concepts:** Formal and informal institutions

**Empirical methods:** Instrumental variables

Friday 15.9: **EXERCISE 1: 10-12.**

**Instructions for homework 1. Teaching Assistant: Anna Holvio**

WEEK 3 (Monday 18.9, WEDNESDAY 20.9)

**Lecture 5, Monday 18.9: Lecture: The Institutional approach to development 2**

Discussion of formal and informal institutions and their role for economic development and prosperity. Theoretical background, connecting to econ theory, how institutions transaction costs and increase efficiency. Examples of research that looks at informal institutions (e.g. Trust, norms).

**Concepts:** Transaction costs, information problems, commitment problems, trust, norms, history and institutions.

**Lecture 6, WED 20.9 (n.b. different time and classroom): Poverty measures and concepts**

We will go over the main approaches to measuring poverty in developing countries, understanding the motivations behind some of the main approaches, and discuss conceptual and practical challenges involved in this.

**Concepts:** monetary and multi-dimensional poverty, poverty headcount and poverty gap, Foster–Greer–Thorbecke indices, household survey data.

**Deadline to Submit homework 1 on Friday 22.9**

**Part 2: The Microeconomics of Development.**

A closer look at some important aspects of life for poor individuals/households/firm owners in low-income countries of relevance to economics. In this part of the course we will also discuss, in parallel with the "topic areas" outlined below, empirical tools and methods related to causal estimation such as randomized field experiments, difference in differences and instrumental variable strategies. This will be done using examples from important economics papers. We will also revisit micro-theoretical models, primarily utility maximization problems and production functions.

WEEK 4 (Mon 25.9, Thu 28.9)

**Homework 2 handed out Monday 25.9**

**Lecture 7, Mon 25.9: Livelihoods of the Poor: Labor markets in low-income countries, Private sector, small firms and self-employment.** how do the poor in low-income countries make their living, and what characterizes non rural labor markets in these countries? We will go through recent research on self-employment and constraints to business growth.

**Concepts:** Business growth, Investments, Information.

**Empirical methods:** Randomized control trials (RCTs), Instrumental Variables (IV).

**Lecture 8, Thu 28.9: Credit for the poor, microfinance.** In this lecture we will focus on a specific "enabler" of business investment and growth: credit. We will discuss the characteristics of credit markets and products for the poor and discuss recent research on microcredit markets.

**Concepts:** Production function, Information, moral hazard and adverse selection, trust.

**Empirical methods:** Randomized control trials (RCTs).

**Friday 29.9: EXERCISE 2, 10-12 Feedback on homework 1. Paper reading and critically evaluating (instructions for Homework 2) Teaching Assistant: Anna Holvio**

## WEEK 5 (Mon 2.10, Thu 5.10)

### **Lecture 9, Mon 2.10: Agriculture** – Guest lecture with Kalle Hirvonen from IFPRI and WIDER

Agriculture lies at the heart of development. Three-quarters of the world's poor reside in rural areas, most obtaining their livelihood from agriculture. We will cover stylized facts about the role of agriculture in development and discuss the impact of Green Revolution – one of the most important economic events of the 20<sup>th</sup> century – on agricultural sector, economic growth, and development in low- and middle-income countries.

**Concepts:** Agricultural yields, agricultural intensification, famines, high-yielding varieties.

**Empirical methods:** Local Polynomial Regressions, Difference-in-Differences, Bartik (shift-share) instrument

### **Lecture 10, Thu 5.10: Violence and conflict** Guest lecture with Patricia Justino from UNU-WIDER.

There are several links between economic development and conflict. For instance, all the countries unable to reach the Millennium Development Goals by 2015 had one common characteristic: they had recently experienced armed conflict and violence. In this lecture we will discuss research on how conflict and poverty are interrelated, with an emphasis on new research in economics.

**Concepts:** Human capital investments, behavioural and economics effects of war and victimization, the role of institutions.

**Methods:** household surveys, ex-combatant surveys, diff-in-diff, behavioural experiments, mixed methods.

**Deadline to Submit homework 2 on Friday 6.10**

## WEEK 6 (Mon 9.10, Thu 12.10)

**Lecture 11, Mon 9.10: Health in low-income countries:** Health investment decisions of the household. reasons for under-investment in preventive health. Norms and health inequality.

**Concepts:** Household utility function, Information, Time preferences, Externalities, Opportunity costs, Cost – benefit calculations, Trade-offs, Human Capital investments.

**Empirical methods:** Regression control and heterogenous effects, Randomized control trials (RCTs).

### **Lecture 12, Thu 12.10: Technology adoption**

We will discuss challenges related to the adoption of various “technologies” and how this affects economic outcomes, with special applications to agriculture, health (and, if time allows, entrepreneurship). Examples of agricultural technologies are hybrid seeds or fertilizer; examples of health technologies are vaccinations and mosquito-nets.

**Concepts:** Investments, Incentives, Production function, Information, Risk attitudes.

**Empirical methods:** Randomized control trials (RCTs)

Short summary of course and preparation for exam.