

Ec 535 DEVELOPMENT and GROWTH
Course Outline and Reading List
Lent Term, 2009-10

Lectures 1-3: Maitreesh Ghatak

Reading List

Readings (marked with *) will be covered in detail during lecture. The lecture notes and the starred readings are compulsory reading. Non-starred readings will not be discussed but are reported here to guide further study on each of the topics. Lecture notes will be posted on the course website. Please note that I have posted preliminary versions of the lecture notes for your convenience and will post revised versions after the lecture.

My office hours: Tuesdays 4 - 5PM Room 530 STICERD (walk in), or by appointment.

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Lecture 1: Market Failure and Poverty Traps

In this lecture we examine one particular mechanism of how institutions affect economic development. In the presence of transactions costs leading to financial market imperfections, an economy may fail to converge to the efficient steady state, and remain trapped in poverty. The initial wealth distribution may play a crucial role in governing the future trajectory of the economy.

*[Lecture Notes](#)

*Maitreesh Ghatak and Nien-Huei Jiang (2002): "[A Simple Model of Inequality, Occupational Choice and Development](#)". *Journal of Development Economics*, Vol. 69, No. 1, October.

Banerjee, A. and A. Newman, (1993): "Occupational choice and process of development" [Journal of Political Economy](#), 101 (2).

Maitreesh Ghatak, Massimo Morelli, Tomas Sjoström (2006) "Entrepreneurial talent, occupational choice, and trickle up policies", Forthcoming, *Journal of Economic Theory*.

*Banerjee, A. (2002): "[Contracting Constraints, Credit Markets and Economic Development](#)", *MIT Dept. of Economics Working Paper No. 02-17* (Section 4)

Banerjee, B. and E. Duflo (2004): "[Growth Theory through the Lens of Development Economics](#)" December 2004, forthcoming in *Handbook of Development Economics*. (especially, section 6)

*Abhijit Banerjee and Sendhil Mullainthan “[Limited Attention and Income Distribution](#)”, January 2008

Debraj Ray and D. Mookherjee (2003): "[Persistent Inequality](#)", *Review of Economic Studies* **70**, 369--393

Lecture 2: Financial Markets in Developing Countries: Theory & Policy

Financial markets play a crucial role in economic development by allowing those who have talents and skills but not money, to undertake investments by using the surplus savings of others. If this market is subject to frictions, then worthwhile projects may not be undertaken for lack of money, thereby depressing national income below its potential. We study theoretical models of frictions in financial markets, empirical evidence on their importance, and innovative policy interventions in response to financial market imperfections, with special emphasis on micro-finance

*[Lecture Notes](#)

*Parikshit Ghosh, Dilip Mookherjee and Debraj Ray: "[Credit Rationing in Developing Countries: An Overview of the Theory](#)", by, Chapter 11 in *Readings in the Theory of Economic Development*, edited by D. Mookherjee and D. Ray, London: Blackwell, 2000, pages 383--301.

*Banerjee, A. (2002): "[Contracting Constraints, Credit Markets and Economic Development](#)", *MIT Dept. of Economics Working Paper No. 02-17* (Section 4)

*Ghatak, Maitreesh and Timothy W. Guinnane: "[The Economics of Lending with Joint Liability : Theory and Practice](#)" *Journal of Development Economics*, Vol.60, No.1, October 1999.

Lecture 3: Property Rights

While the classical economists, from Smith to Marx, accorded a central position to the role of property rights (or, .relations of production.) in the process of economic development, it is only recently that mainstream economics has come around to this point of view. The new institutional approach to development economics (North, 1990) has, however, put concerns about effective property rights at the centre of thinking about development, In this lecture we address two fundamental and related questions concerning the relationship between property rights and economic activity. (i) What are the mechanisms through which property rights affect economic activity? (ii) What are the determinants of property rights?

*[Lecture Notes](#)

Besley, T. (1995): "Property Rights and Investment Incentives: Theory and Evidence from Ghana." *Journal of Political Economy*, 103, 5, p. 903-937.

*Besley, T. and M. Ghatak (2009): "[Property Rights and Economic Development](#)", in D. Rodrik and M. Rosenzweig (ed.s) *Handbook of Development Economics* V, North Holland, 2009.

*Besley, T. and M. Ghatak (2009): [The de Soto Effect](#), Mimeo, LSE.

De Soto, Hernando, [2001], "The Mystery of Capital," Finance and Development, IMF, available at: <http://www.imf.org/external/pubs/ft/fandd/2001/03/desoto.htm>.

Banerjee, A.V., P. Gertler and M. Ghatak (2002) : "[Empowerment and Efficiency - Tenancy Reform in West Bengal](#)", *Journal of Political Economy*.