Course Outline

In Topic 1 we motivate this part of the course by looking at some aspects of the economic lives of the poor based on household surveys from a set of developing countries. In Topics 2 and 3 we take a macro view and study some theoretical models that in contrast to the neoclassical growth model do not predict convergence. We will see that two economies with identical parameters can converge to very different equilibria depending in initial conditions, or "history". In Topics 4-10 we take a micro view and study financial markets, property rights, agricultural organization, industrial organization, social networks, provision of public goods and services, and time permitting, political economy of institutional change in developing countries. While topics and lectures will hopefully have a rough correspondence (i.e., topic t will be covered at least partly in week t), it will not be exact.

Lecture notes will be posted on the course website. These constitute required reading. Because I update/revise the lecture notes before the lecture, you can access only the previous year's lecture notes before the lecture if that topic was taught. The revised version is posted on the web typically within a day or two of the lecture.

There are no textbooks for the course. Debraj Ray’s Development Economics, Princeton University Press, 1998 provides an excellent introduction to most topics covered in the course.

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

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Reading List

Topic 1: Introduction

We look at some stylized facts based on micro-level studies as to how the poor live, with special focus on their consumption, income generation, as well as their access to markets and public services. This motivates our theoretical discussion of models of poverty traps (Topics 2 and 3), as well as the microeconomic studies of various markets and institutions that affect development.

*Lecture Notes

Abhijit Banerjee and Esther Duflo (2007) “What is Middle Class about the Middle Classes Around the World?”, December 2007

Topic 2: Market Failure and Poverty Traps

We examine some mechanisms of the vicious cycle of poverty. 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


(*Section 4)


(* Sections 1-3)


Topic 3: Coordination and Sorting

We discuss some mechanisms by which history can matter. In the presence of externalities and complementarities in actions of individuals, there can be multiple equilibria. Two identical economies can end of at very different levels of development depending on initial conditions. We also look at issues such as group inequality.
*Lecture Notes*


**Topic 4: Financial Markets in Developing Countries: Theory & Evidence**

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*


David Mckenzie and Christopher Woodruff (2007): Experimental Evidence on Returns to Capital and Access to Finance in Mexico


**Topic 5: Micro Finance**

Microfinance needs no introduction as one of the key elements of development policy. We look at theoretical models of how microfinance works as a mechanism, and also empirical studies of its impact.

*Lecture Notes


**Topic 6: Property Rights**

Property rights are at the heart of a market economy and some trace the problem of underdevelopment as a problem of imperfect property rights. In this lecture we examine various mechanisms through which property rights affect economic efficiency and also look at empirical studies that study the impact of them in the context of some reform.

*Lecture Notes*


**Topic 7: Agricultural Organization & Productivity in Developing Countries**

Agriculture occupies a central place in less developed economies. We study (a) features of agricultural organization in these economies, such as sharecropping tenancy and
interlinked contracts, as optimal second-best responses to missing markets and transactions costs (b) strategies for successful agrarian reform (c) empirical determinants of organizational and contractual form, and the effect of these on agricultural productivity

*Lecture Notes*


**Topic 8: Industrial Organization in Developing Countries**

Two commonly cited problems for low levels of industrial investment in developing countries is costly contracting and uncertainty. We study how industrial organization in developing countries respond to these problem, focussing on the importance of reputation and subcontracting and the potential role of cooperatives.

*Lecture Notes*


*Tahir Andrabi, Maitreesh Ghatak, and Asim Ijaz Khwaja: "Subcontractors for Tractors -


**Topic 9: Social Networks and Informal Institutions**

Even though formal institutions of enforcing property rights and contracts are weak or non-existent in developing countries, informal institutions based on repeated interactions have emerged in response. We draw on theoretical work on the benefits and costs of informal institutions and complement it with empirical work drawing on economic history, as well as contemporary developing countries.

*Lecture Notes*


Topic 10: Organization Design for Public Goods Provision

Effective provision of public goods is a key determinant of quality of life. Conventional approaches to poverty measurement look only at private goods, but this view is too narrow. Public policy debates mostly revolve around the question ‘how much’, i.e., how much money should the government spend on particular types of public goods. In the light of compelling evidence of government failure, the key question to ask is ‘how’, i.e., designing effective mechanisms for the delivery of public goods.

*Lecture Notes*

Tim Besley and Maitreesh Ghatak (2004): "Competition and Incentives with Motivated Agents" Forthcoming, American Economic Review.


World Development Report 2004: Making Services Work For Poor People


