

ECON 5420: Development Economics
Spring 2019
Hong Kong University of Science & Technology
Course website: <http://canvas.ust.hk>

Class meetings Mon 9:00 – 11:50 am LSK 6045

Instructor

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Course description

It could be argued that the primary subject of the economics discipline is development. Certainly governments all over the world worry about their countries' development, and most individuals are concerned about their economic and social wellbeing. So, for economists and indeed all interested citizens, it is useful to understand how economies grow, what it means for an economy to be developed, and what barriers individuals and countries face in achieving development.

We will work through a set of topics that will all contribute to this understanding. Questions we will be thinking about include the following:

- What is “development”, and how is it different from economic growth? How should a country's development be evaluated?
- How do agricultural households make decisions? What role does the agricultural sector play in growth?
- How does the structure of an economy change as it grows? What drives rural-to-urban migration?
- How do credit market frictions affect economic activity? Can they lead to poverty traps?
- How does microcredit help to alleviate credit market frictions? What are the drawbacks of traditional microcredit models?

Course Intended Learning outcomes (CILOs)

Students who complete this course successfully will be able to:

1. define different metrics of development, compare their pros and cons, and illustrate how they can be measured
2. explain the theoretical and empirically observed relationship between economic growth and poverty reduction
3. analyse the economic decisions of agricultural households and explain why agricultural growth is critical to economic growth
4. analyse the relationship between the agricultural sector and manufacturing and explain how structural transformation takes place
5. describe credit market imperfections in the developing economy agrarian context and explain why they may impede efficiency
6. evaluate the role of microcredit contract design in credit access for the poor
7. distinguish between correlation and causality, and explain the merits and demerits of different empirical methods
8. critically evaluate empirical research papers and interpret their results

Prerequisites

You must have taken ECON 5130 (Microeconomic Analysis) and ECON 5140 (Macroeconomic Analysis) successfully to enrol in this course.

I will assume that you know core concepts in calculus and microeconomics. Please review these if you feel uncertain.

Learning environment

I will lecture and lead class discussions, but I welcome, and do my best to encourage class participation. At any time, please feel free to interrupt me to ask questions or make comments. I will also ask questions and expect you to answer. The questions are not meant to test you. Please do not worry about whether your answer is “correct” or “incorrect”. Often what is incorrect according to a particular viewpoint is correct according to another viewpoint. I am interested in finding out what you think and why you think it.

Learning resources

- When I lecture, I will make notes on the board, which you are free to copy.

- The TA and I will use the [course website](#) for announcements and to post homework assignments, homework scores and exam grades. Please check it regularly.
- We will read a few chapters each from the books listed below. All are available through the HKUST library.
 - **T&L:** *Essentials of Development Economics* (2015) by J. Edward Taylor and Travis J. Lybbert.
 - **R:** *Development Economics* (1998) by Debraj Ray.
 - **A&M:** *The Economics of Microfinance* (2005) by Beatriz Armendariz de Aghion and Jonathan Morduch.
- In addition we will read some journal articles. The reading list is below. *Readings marked with a star (*) are required reading, the rest are optional.* A [hyperlink](#) is provided for readings freely available online. **Please contact the TA if you have trouble locating any of the reading material.**

Reading List

1. What is Development Economics About?

*T&L, “What Development Economics is All About”, Ch. 1, pp. 1-22.

2. Empirical Methods in Development Economics

*T&L, “What Works and What Doesn’t”, Ch. 2, pp. 23-66.

Deaton, Angus (2010), “[Instruments, Randomization and Learning About Development](#)”, *Journal of Economic Literature*, Vol. 48, June, pp. 424-455.

3. Poverty & Inequality

*T&L, “Poverty”, Ch. 4, pp. 90-109.

*T&L, “Inequality”, Ch. 5, pp. 110-131.

4. Economic Growth & Poverty Reduction

*Dollar, David and Aart Kraay (2002), “[Growth is Good for the Poor](#)”, *Journal of Economic Growth*, Vol. 7, No. 3, pp. 195-225.

*Ravallion, Martin (2001), “[Growth, Inequality and Poverty: Looking Beyond the Averages](#)”, *World Development*, Vol. 29, No. 11, pp. 1803-1815.

Dollar, David, Tatjana Kleineberg and Aart Kraay (2013), “[Growth Still Is Good for the Poor](#)”, World Bank Policy Research Working Paper 6568.

5. Human Development

*T&L, “Human Development”, Ch. 6, pp. 132-166.

*Ye, Xiao and J. Edward Taylor (1995), “The Impact of Income Growth on Farm Household Nutrient Intake: A Case Study of a Prosperous Rural Area in Northern China”, *Economic Development and Cultural Change*, Vol. 43, No. 4, pp. 805-819.

*Chen, Yuyu and Li-An Zhou (2007), “The Long-Term Health and Economic Consequences of the 1959-1961 Famine in China”, *Journal of Health Economics*, Vol. 26, No. 4, pp. 659-681.

6. Agriculture

*T&L, “Agriculture”, Ch. 9, pp. 214-243.

Zhang, Xiaobo and Dinghuan Hu (2014), “Overcoming Successive Bottlenecks: The Evolution of a Potato Cluster in China”, *World Development*, Vol. 63, November, pp. 102-112.

7. Structural Transformation

*R, “Rural and Urban”, Ch. 10, 353-388.

8. Characteristics of Agrarian Economies

*R, “Markets in Agriculture: An Introduction”, Ch. 11, pp. 403-414.

9. Credit Markets

*R, “Credit Markets”, Ch. 14.

*R, “Inequality, Capital Markets and Development”, Section 7.2.8, pp. 226-237.

10. Microcredit

*A&M, “Roots of Microfinance: ROSCAs and Credit Cooperatives”, Ch. 3, pp. 57-68.

*A&M, “Group Lending”, Ch. 4, pp. 85-96, 108-118.

Park, Albert & Changqing Ren (2001), “Microfinance with Chinese Characteristics”, *World Development*, Vol. 29, No. 1, pp. 39-62.

Banerjee, Abhijit, Esther Duflo, Rachel Glennerster and Cynthia Kinnan (2015), “The Miracle of Microfinance? Evidence from a Randomized Evaluation”, *American Economic Journal: Applied Economics*, Vol. 7, No. 1, pp. 22-53.

Maitra, Pushkar, Sandip Mitra, Dilip Mookherjee, Alberto Motta and Sujata Visaria (2017), “Financing Smallholder Agriculture: An Experiment with Agent-intermediated Microloans in India”, *Journal of Development Economics*, Vol. 127, pp. 306-337.

Assessment scheme

Class Participation 15%

Your class participation score will depend on how often you raised questions, answered questions or made comments. Students who participate more actively will get more marks. *Attendance and participation are not the same thing*, although of course one is a necessary condition for the other!

Homework 15%

There will be 2 homework assignments for this course. You are expected to do each one. Each assignment must be completed individually: you may discuss the assignment with your classmates but you must submit your own work. Each submission will be given a score out of 10 marks and will be returned to you.

Open-book Quizzes 40%

There will be 2 short quizzes in this course, held during class time. **Quiz 1 will be held at 9 am on March 11; Quiz 2 at 9 am on April 15.** You will be allowed to consult your notes and readings while you answer the quiz. After each quiz, we will have a short in-class discussion of your answers and opinions. Each quiz will be graded afterwards and returned to you.

Final Exam 30%

The final exam will be **closed-book**. It will be held as per the final examination timetable posted by the [Academic Records and Registration](#) team at the Academic Registry. **Please note: The final exam will cover material from the entire course.**

Academic honesty

Academic dishonesty is immoral and unfair, and I take a very serious view of it. You must be aware of [HKUST's policy on academic integrity](#), and abide by its provisions. I will report all cases of suspected misconduct to the Dean's Office, and their decision will be final and binding.

Table 1: **Course Schedule**

Class	Date	Topics	Events
L1	Jan 28	Questions and Methods in Development Economics	
L2-3	Feb 11-18	Poverty & Inequality	HW1 assigned 18/2
L4	Feb 25	The Link between Growth & Poverty Reduction	HW1 due 25/2
L5-6	Mar 4-11	Human Development	Quiz 1 11/3
L7-8	Mar 18-25	Structural Transformation	HW2 assigned 25/3
L9-11	Apr 1-15	Credit Markets	
L12-13	Apr 29-May 6	Microcredit	HW2 due 1/4; Quiz 2 15/4
End of term	Date TBD	Final exam	

The course schedule is tentative. Exact dates, topics or readings may change. Please keep an eye out for course announcements.