**UNIVERSITY OF ATHENS**

**Department of Economics**

**Graduate and UA DPhil Programs**

**Academic year 2014-15. Second Semester**

**Course: Development Microeconomics**

**Instructors**

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**Course Description**

In the last fifteen years the field of development economics has witnessed considerable emphasis on applications of microeconomics to development issues. Theories of imperfect competition, strategic interaction, market failures, incentives and institutions, poverty traps, and econometric estimation of basic relationships with micro surveys have found many applications in development economics. The purpose of the course is to first examine several factor market imperfection issues from a microeconomic and policy perspective, in order to introduce a range of methods both theoretical and quantitative that can be applied to a variety of economic policy analysis areas. The emphasis will be on microeconomic models applied to development issues, and empirical methods and tools of measurement and analysis. Each subject within each module will include a theoretical and conceptual introduction to the subject matter and then some of the quantitative methods utilized to analyse the concrete policy issues. Secondly the course will discuss the field of evaluation of public policies via micro surveys and randomized control trials, a field that has become central in all development economics applied work.

**PREREQUISITES**

Prerequisites for the course are knowledge of microeconomic analysis at a postgraduate (Masters) level, and knowledge of mathematics for economists and methods of quantitative analysis and econometrics at a Masters level

**COURSE REQUIREMENTS**

The grade of the course will be based 50% on a term paper, and 50% on a final exam. The term paper will consist of an empirical application. Each student will be required to utilize a microsurvey (such as the Greece household budget surveysn or the World Bank LSMS suveys) and compile descriptive tables, as well as answer a specific question from a set that will be distributed during the course.

The course will include two modules.

**MODULE 1. Factor market imperfections, credit access, risk and insurance.**

**MODULE 2. Linking development policy with development research**

**COURSE SYLLABUS AND BIBLIOGRAPHY**

(The most relevant articles and chapters from books will be distributed. Additional material and more references may be distributed during the course)

Useful background books for the whole course are the following

**Bardhan, P. and C. Udry (1999), Development Microeconomics,** Oxford University Press [from now on, **BU** ]

**Bardhan, P. and C. Udry (2000), Readings in Development Economics, vol. I – Micro-Theory**, MIT Press [from now on, **BU1** ]

**Bardhan, P. and C. Udry (2000), Readings in Development Economics, vol. II – Empirical Microeconomics**, MIT Press [from now on, **BU2** ]

**T. Paul Schulz and J. Strauss (editors) Handbook of Development Economics vol. 4.** North Holland 2008 (in the sequel is referred to as **SCHULTZSTRAUSS)**

**D. Rodrik and M. R. Rosenzweig (editors) Handbook of Development Economics vol. 5**. North Holland 2010 (in the sequel is referred to as **RODRIK ROSENZWEIG)**

**Debraj Ray. Development Economics.** Princeton University Press. 1998. **(RAY)**

**Elisabeth Sadoulet and Alain de Janvry, Quantitative Development Policy Analysis**, Baltimore, MD: The Johns Hopkins University Press, 1995 (referred to as **SADDEJANVRY**)

**S. R. Khandker, G. B. Koolwal, and H. A. Samad (2010). Handbook on Impact Evaluation.** World Bank (referred to as **KHANDKER**)

A**ngus Deaton. The Analysis of Household Surveys**. The Johns Hopkins University Press. 1997. (In the sequel referred to as **DEATON**)

**Basu, Kaushik. Analytical Development Economics.** The MIT Press, 1997**. (**In the sequel referred to as **BASU)**

**MODULE 1. Factor market imperfections, credit access and insurance.**

**1.1 Household economics**

\*Singh, I., Squire, L., and Strauss, J. (eds.) *Agricultural Household Models*. Chapters 1 and 2. Baltimore, MD: The Johns Hopkins University Press, 1986.

\*BU. Chapter 2.

\*de Janvry, A., Fafchamps, M., and Sadoulet, E. "Peasant Household Behavior with Missing Markets: Some Paradoxes Explained." *Economic Journal*, Vol. 101, No. 409 (November, 1991), pp. 1400-1417.

Eswaran, M., and Kotwal, A. "Access to Capital and Agrarian Production Organization." *Economic Journal*, Vol. 96 (1986), pp. 482-498.

 **1.2 Behaviour under risk**

\* Elisabeth Sadoulet and Alain de Janvry, *Quantitative Development Policy Analysis*, Baltimore, MD: The Johns Hopkins University Press, 1995, chapter 5.

 Fafchamps, M. "Cash Crop Production, Food Price Volatility, and Rural Market Integration in the Third World." *American J. of Agricultural Economics*, Vol. 74, No. 1 (1992), pp. 90-99.

\* Finkelshtain, Israel, and Chalfant, James A. "Marketed Surplus Under Risk: Do Peasants Agree with Sandmo?" *American J. of Agricultural Economics*, Vol. 73, No. 3 (1991), pp. 557-567.

\* Besley, T. 1995. “Savings, credit and insurance.” In Behrman, J. and T.N. Srinivasan, eds., *Handbook of Development Economics.* Vol. 3. Amsterdam: North-Holland.

Deaton, A. 1992. *Understanding Consumption.* Oxford: Clarendon Press.

Ray, Debraj, *Development Economics*, Princeton University Press, 1998. Chapter 15 (Insurance).

 Hubbard, R.G., J. Skinner, and S.P. Zeldes. 1995. “Precautionary savings and social insurance.” *Journal of Political Economy*, 103(2), pp. 360-399.

 Paxson, C.H. 1993. “Consumption and Income Seasonality in Thailand.” *Journal of Political Economy* 101(1), pp. 39-72.

 Rosenzweig, M. and K. I. Wolpin. 1993. “Credit market constraints, consumption smoothing, and the accumulation of durable production assets in low-income countries: investment in bullocks in India.” *Journal of Political Economy*, 101(2), pp. 223-244.

\* Udry, C. 1995. “Risk and Saving in Northern Nigeria.” *American Economic Review*, 85(5), pp. 1287-1300.

 Zeldes, S.P. 1989. “Consumption and Liquidity Constraints: An Empirical Investigation.” *Journal of Political Economy*, 97(2), pp. 305-346.

**1.3 Credit and insurance**

BU, chapters 7,8

SADDEJANVRY,chapter 5

\*S. Dercon, ‘’Risk, Insurance and Poverty: A Review’’, chapter 1 in S. Dercon (editor). Insurance against poverty. Oxfor University Press, 2005.

\*Stiglitz, J.E., and A. Weiss (1981) “Credit Rationing in Markets with Imperfect Information” *American Economic Review,* vol. 71, No. 3, pp. 393-419

Ghatak, M. and T. Guinnane (1999), “The economics of lending with joint liability: Theory and practice”, *Journal of Development Economics*, 60, 195-228.

\*Morduch, J., (1995), “Income Smoothing and Consumption Smoothing”, *Journal of Economic Perspectives*, vol.9, Summer, 103-114.

C. Paxson “Using weather variability to estimate the response of savings to transitory income in Thailand” BU2 ch. 7

D. Ray, ch. 15

\*Townsend, R. (1993), “Risk and insurance in village India”, *Econometrica*, 62, 539-91.

Bell C., (1989) “Credit markets and interlinked transactions”, chapter 16 in H. Chenery and T.N.Srinivasan.(editors) *Handbook of Development Economics*, volume I, Elsevier Science Publishers, Amsterdam

\*S. Dercon and L. Christiaensen (2010), “Consumption risk, technology adoption and poverty traps: Evidence from Ethiopia” Journal of Development Economics

Barnett, B, C. Barrett and J. Skees `Poverty Traps and Index-Based Risk Transfer Products’ World Development, Volume 36, Issue 10, October 2008, Pages 1766-1785

\*Banerjee, A., E. Duflo, R. Glennerster, and C. Kinnan (2009). ”The miracle of microfinance? Evidence from a randomized evaluation”, working paper.

* 1. **Migration, rural-urban wage gap and unemployment**

**\*Basu,** chapters 8-10, pp 163-222

\*Todaro, M. (1969), “A model of labor migration and urban development in less developed countries” *American Economic Review,* vol. 59, March, pp. 138-148

\*Harris, J.R., and M. P. Todaro (1970), “Migration, unemployment and development: A two sector analysis”, *American Economic Review,* vol. 60, March, pp. 126-142

Stiglitz, J.E., (1974), “Alternative theories of wage determination and unemplyment in LDCs: The labour turnover model”, *Quarterly Journal of Economics,* vol. 88, pp. 194-227

Williamson, J.G. (1988) “Migration and urbanization”, chapter 11 in H. Chenery and T.N.Srinivasan.(editors) *Handbook of Development Economics*, volume I, Elsevier Science Publishers, Amsterdam. (**ChenSriniv)**

**BardhanUdry,** chapters 4,5

Stark, O. The Migration of Labor, Basil Blackwell, 1991

* 1. **Inequality, poverty traps and development**

\*Ray, chapters 6 and 7

\*Tsakloglou, P. (1993), "Aspects of Inequality in Greece", Journal of Development Economics, vol. 40, pp. 53-74

Sen. A. (1979), "Issues in the Measurement of Poverty", Scandinavian Journal of Economics, vol. 81, pp. 285-307

Foster, J., J. Greer, and E. Thorbecke (1984), " A Class of Decomposable Poverty Measures" Econometrica, vol. 52, No. 3, pp 761-65

Sarris, A., and S. Zografakis (2000), " Poverty and Maldistribution of Income in Greece after Democratisation", OIKONOMIKA vol.1(1), pp. 3-40 (in Greek)

Aghion, P, E. Caroli, and C. Garcia-Penalosa (1999), " Inequality and Economic Growth: The Perspective of the New Growth Theories", Journal of Economic Literature, vol. XXXVIII, No. 4 (December), pp. 1615-1660.

**MODULE 2. MODULE 2. Linking development policy with development research**

**2.1 Analysis of Household Surveys I – The approach**

\*Rodrik Dani (2008) “The New Development Economics - We shall experiment but how shall we learn” in J. Cohen and W. Easterly (Eds) What Works in Development? Thinking big vs. thinking small. Washington DC: Brookings Institution Press

\*G. Kalton (1983). Introduction to survey sampling. Sage publications.

\*Angus Deaton. (1997) The Analysis of Household Surveys. The Johns Hopkins University Press. chapters 1 and 2

Mergos, G. and Slade, R. (1987) Dairy Development and Milk Co-operatives: The Effects of a Dairy Project in India, World Bank Staff Discussion Papers, No. 15, World Bank, Washington D.C., 140 pp.

**2.1 Analysis of Household Surveys II - Experimentation**

\*E. Duflo, R. Glennerster and M. Kremer (2008). “Using randomization in development economics research: A toolkit” , chapter 61 in T.P. Schultz and J. Strauss. Handbook of Development Economics, vol. 4. North Holland, 2008

\*Angus Deaton, (2009), “Randomization in the tropics, and the search for the elusive keys to economic

Development”, working paper

Mergos, G. and Yotopoulos, P.A. (1986) “Family Labor Allocation in the Agricultural Household” *Food Research Institute Studies*, XX: 87-104.

D. Karlan, and J. Zinman (2008) Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impact

**2.3 Consumer behaviour, demand elasticities and food security assessment using household survey data**

Celeste Sununtnasuk (2013) “Household Consumption and Expenditure Surveys: A Tool for Estimating Food and Nutrient Intake” International Food Policy Research Institute (IFPRI) USAID SPRING Project, Washington DC. (available at <https://www.spring-nutrition.org/sites/default/files/spring_presentation_hces_tool_sununtnasuk.pdf>)

Huang K and B. Lin (2000) “Estimating Food and nutrient Demand Elasticities from Household survey Data” USDA, Economic Research Service, Technical Bulletin 1887, Washington DC. (available at <http://ageconsearch.umn.edu/bitstream/33579/1/tb001887.pdf>)

Smith Lisa C. and Ali Sunbadoro (2007) “Measuring Food Security using Household Budget Surveys” *International Food Policy Research Institute Washington, DC, USA (*available at <http://www.ifpri.org/sites/default/files/publications/sp3.pdf>)

Mergos, G. (1991) “Consumption Parameters from Survey Data and Demand for Schooling Goods of Philippine Rural Households” *Quarterly Journal of International Agriculture (*Germany), Vol. 30, pp. 4, pp. 366-379.

Mergos, G. (1992) “The Economic Contribution of Children in Peasant Agriculture and the Effect of Education: Evidence from the Philippines” *The Pakistan Development Review*, Vol. 31(2), (Summer 1992), pp.189-201

Smith Lisa C. (2005) “The use of household expenditure surveys for the assessment of food insecurity” *International Food Policy Research Institute Washington, DC, USA (*available at

[*http://www.fao.org/docrep/005/Y4249E/y4249e08.htm#TopOfPage*](http://www.fao.org/docrep/005/Y4249E/y4249e08.htm#TopOfPage)*)*

**2.4 Impact evaluation of projects and programmes I – Why evaluate**

\*Gertler P. J. et al (2011) Impact Evaluation in Practice, The World Bank, Washington DC. Chapters 1 and 2 (available at <http://siteresources.worldbank.org/EXTHDOFFICE/Resources/5485726-1295455628620/Impact_Evaluation_in_Practice.pdf>)

KHANDKER. Chapters 2 and 3

European Commission (2013) “EVALSED – The resource for the evaluation of socio-economic development ” DG Regio – Regional and Urban policies, Brussels. (available at <http://ec.europa.eu/regional_policy/sources/docgener/evaluation/guide/guide_evalsed.pdf>)

**2.5 Impact evaluation of projects and programmes II – Methodology of impact evaluation**

\*Gertler P. J. et al (2011) Impact Evaluation in Practice, The World Bank, Washington DC. Chapters 3, 4, 5, and 6 (available at <http://siteresources.worldbank.org/EXTHDOFFICE/Resources/5485726-1295455628620/Impact_Evaluation_in_Practice.pdf>)

KHANDKER. Chapters 4 to 9

M. Ravallion (2008). ‘’Evaluating anti-poverty programs’’, chapter 59 in T.P. Schultz and J. Strauss. Handbook of Development Economics, vol. 4. North Holland, 2008

**2.6 Impact evaluation of projects and programmes III – Implementing an impact evaluation**

\*Gertler P. J. et al (2011) Impact Evaluation in Practice, The World Bank, Washington DC. Chapters 10, 11 and 12 (available at <http://siteresources.worldbank.org/EXTHDOFFICE/Resources/5485726-1295455628620/Impact_Evaluation_in_Practice.pdf>)

KHANDKER. Part 2 - Chapters 10,11 and 12

European Commission (2013) “EVALSED – Methods and techniques” DG Regio – Regional and Urban policies, Brussels. (available at

 <http://ec.europa.eu/regional_policy/sources/docgener/evaluation/guide/evaluation_sourcebook.pdf>)

**MODULE 3. Techniques of impact evaluation of development policies via microsurveys**

**2.1 Household Surveys**

\*G. Kalton (1983). Introduction to survey sampling. Sage publications.

\*Angus Deaton. The Analysis of Household Surveys. The Johns Hopkins University Press. 1997, chapters 1 and 2

**2.2 Impact evaluation**

\*KHANDKER. Chapters 2,3, 4,5, 6, 9.

\*E. Duflo, R. Glennerster and M. Kremer (2008). “Using randomization in development economics research: A toolkit” , chapter 61 in T.P. Schultz and J. Strauss. Handbook of Development Economics, vol. 4. North Holland, 2008

\*Angus Deaton, (2009), “Randomization in the tropics, and the search for the elusive keys to economic

Development”, working paper

\*M. Ravallion (2008). ‘’Evaluating anti-poverty programs’’, chapter 59 in T.P. Schultz and J. Strauss. Handbook of Development Economics, vol. 4. North Holland, 2008

\*D. Karlan, and J. Zinman (2008) Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts

A. de Janvry, C. McIntosh, and E. Sadoulet (2008) The Supply- and Demand-Side Impacts of Credit Market Information.

Banerjee A.V., and Duflo E. (2011). Poor Economics. Public Affairs