

Development Economics I (31E15000)

Teacher: Dr. Miri Stryjan

Period 1: 11.9 – 22.10

Mondays 13.15-15.00 Classroom U006 and ONLINE via Zoom

Wednesdays 13.15-15.00 Classroom U006 and ONLINE via Zoom

Course components:

The course consists in 12 lectures, and 2 exercise sessions.

Lectures: Eight lectures will be given by Dr. Miri Stryjan, the responsible teacher for the course. The remaining four lectures are guest lecturers from United Nations University World Institute for Development Economics Research (UNU-WIDER) located in Helsinki. Lectures will be given in a hybrid format with some students attending on site in Otaniemi and other students attending remotely via zoom.

The two exercise sessions are adapted to the content of this course: one focusing on reading and critically evaluating academic papers (for homework 1), one focused on understanding methods and data (for homework 2). Teaching Assistant for the sessions is Jerry Montonen.

Part 1: The Microeconomics of Development.

What is poverty, and what are some important aspects of life for poor people/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 e.g. regression analysis 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 the well-known and/or recent econ papers. We will also revisit micro-theoretical models, primarily utility maximization problems and production functions.

WEEK 1 (Mon 13.09, Wed 15.09)

Monday 13.9 Brief introduction to modern Development Economics.

Introduction of the course and the students, plan for the course. Brief introduction to Development economics, with focus on Micro-oriented approaches.

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 controlled trials (RCTs), Instrumental Variables (IV).

Wednesday 15.9: 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 *impact evaluations* of access to microcredit.

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

Empirical methods: Randomized controlled trials (RCTs), Impact evaluation.

WEEK 2 (Mon 20.9, Wed 22.9)

Homework 1 handed out on Monday 20.9.

Mon 20.9 Poverty measures and concepts: Guest lecture with Carlos Gradín from WIDER. We will go over the main approaches to measuring poverty in developing countries, understanding the motivations behind this some of the main conceptual and practical challenges involved in this.

Concepts: monetary and multi-dimensional poverty, poverty lines and poverty indices.

Wed 22.9: Health in low-income countries: Health investment decisions of the household. reasons for under-investment in preventive health.

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 controlled trials (RCTs).

Thursday 23.9: EXERCISE 1, 10-12 via zoom. Paper reading and critically evaluating (instructions for Homework 1) Teaching Assistant: Jerry Montonen

WEEK 3 (Mon 27.9, Wed 29.9)

Mon 27.9 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 20th 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

Wed 29.9: 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 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 controlled trials (RCTs)

Deadline to Submit homework 1 on Friday 1.10

Part 2: A more macro-oriented perspective on development.

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 also discuss, in parallel with the "topic areas" outlined below, empirical tools such as regression analysis and methods related to causal estimation,

primarily instrumental variable approaches. We will also revisit theoretical models, primarily standard models of economic growth.

WEEK 4 (Mon 4.10, Wed 6.10)

Homework 2 handed out Monday 4.10

Mon 4.10: Cross-country differences Why are some countries poor and others rich? This lecture introduces the “big theories” that seek to explain such differences between countries, and discusses the empirical challenges for testing those theories.

Concepts: Proximal vs fundamental/deep causes of development, historical explanations, the role of geography for economic development.

Empirical methods: Regression control, Instrumental variables, growth models.

Wed 6.10: ONLINE VIA ZOOM!!! Violence and conflict *Guest lecture with Patricia Justino from UNU-WIDER. ONLINE VIA ZOOM!!!*

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-combatants surveys, diff-in-diff, behavioural experiments, mixed methods.

Thursday 7.10: EXERCISE 6: 10-12.

Feedback on homework 1. Instructions for homework 2. Teaching Assistant: Jerry Montonen.

WEEK 5 (Mon 11.10, Wed 13.10)

Monday 11.10: The Institutional approach to development 1: Introduction to formal and informal institutions and their role for economic development and prosperity. Theoretical background, connecting to econ theory, how institutions (both formal and informal) address transaction costs and increase efficiency. Some examples of research that looks at informal institutions (e.g. Trust, norms).

Concepts: Transaction costs, information problems, Commitment problems, Trust, Norms.

Wed 13.10 : The Institutional approach to development 2: Guest lecture with Professor Kunal Sen from UNU WIDER.

Concepts: Formal institutions, growth, GDP per capita, property rights, deep determinants of development.

Empirical methods: Instrumental variables

Deadline to Submit homework 2 on Friday 15.10

WEEK 6 (Monday 18.10, Wednesday 20.10)

Mon 18.10: Growth models

We revisit the workhorse models for explaining economic growth, and how they can be connected to data on technological and human capital investments.

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

Wednesday 20.10 : Conclusion and course summary Concluding and wrapping up the material covered in the course, connecting the first and the second parts of the course. Summary of course and preparation for exam.

Course examination

The examination and final grade are based on 3 components:

- **Lecture assignments (10% of final grade)**: During the course there will be short assignments based on the mandatory reading for 7 of the lectures given by Dr. Stryjan. Each student should submit the assignments for **4 lectures** (of your choice). These are graded on a pass/fail basis.
- **Homework assignments (40% of final grade)**: During the course 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.
- **Final Exam (50% of final grade)**: The exam will be taken online, and accessed via My courses. First exam is held on 29.10 and retake exam on 15.12. Note that registration is required for the Retake exam.