

Part IIB Paper 8: The Economics of Developing Countries

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Paper Content

This paper aims to provide a framework to discuss contemporary economic problems and policy issues in poor countries, and on interpreting quantitative empirical findings on these issues. The paper focuses on the microeconomics of development and the role of institutions. The aim is to use the tools of economics (particularly microeconomic theory and econometrics) to understand contemporary issues in economic development.

Note: Part IIA Paper 4 (Economic Development) is not a prerequisite to taking this paper.

Objectives

By the end of this paper, students should have acquired a knowledge and understanding of the core conceptual tools and theoretical debates, and their empirical application to the contemporary development experience of modern poor countries.

The course will focus on how individuals, households and firms in low-income settings make decisions and the constraints they face in doing so. Lectures will cover areas such as education, health, intra-household allocation, contractual arrangements in land, credit and insurance, informal and formal norms, institutions and political economy. A special focus in the second half of the course will be on the role that communities play in the development process.

Lecture Courses

The lecture courses which constitute the lectures for this paper are as follows:

Development Economics I (Santangelo, 16 lectures, weeks 1-8, Michaelmas Term)

Development Economics II (Prof. Kaivan Munshi, 22 lectures, weeks 1-8, Lent Term)

Reading

The course will draw on textbooks such as *P. Bardhan* and *C. Udry*, *Development Microeconomics* (Oxford University Press, 1999) and *A. Banerjee*, *R. Benabou* and *D. Mookherjee*, *Understanding Poverty* (Oxford University Press, 2006), and will cover selected research papers in substantial detail.

Supervisions

Your Director of Studies remains responsible for all supervision arrangements. A suggested list of supervisions will be made available to all supervisors at the start of term.

Examination

The examination will consist of a choice of questions in a single section.

Dissertations in development economics

All arrangements for supervision of dissertations remain the responsibility of your Director of Studies. Please do not approach lecturers directly for supervisions on dissertations.

Sample questions

1. There is a large group of farmers, trying to put a mutual insurance scheme into place. A farmer receives $H=\$900$ when his harvest is successful and $L=\$400$ when it fails. The probability of success P is increasing in the farmer's effort e : $P=(e)^{\frac{1}{2}}$. Putting in effort is costly to the farmer. This cost (in utility units) is equal to $10e$.

(a) Without access to insurance, how much effort will the farmer exert? His utility in the high and low states is $(H)^{\frac{1}{2}}$ and $(L)^{\frac{1}{2}}$ respectively.

(b) Now suppose that a full-insurance scheme is put into place. What payoff will each farmer receive? What is the problem with such a scheme?

(c) Suppose now that the community somehow manages to take care of the problem that you discovered above. The sustainability of the full-insurance scheme will still depend on each farmer's discount factor. What is the minimum discount factor required for the full-insurance scheme to be sustainable? What could the community do to make the institution more stable?

(d) Is your answer to (c) consistent with the empirical evidence? Discuss in brief.

2. Marriage in India is endogamous: individuals can only marry within their sub-caste. In contrast, marriage in sub-Saharan Africa is exogamous: individuals must marry outside their clan. This implies that marriage in sub-Saharan Africa is accompanied by membership in a new affine network organized around the wife's family and that men must often bring home their brides from far away.

Sketch a potential explanation for these differences in marriage rules, focusing on the role of rural insurance networks.