The Political Economy of Economic Development
Spring 2015
Economics 2392
Class Location: Sever 110
Version: Final

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Prerequisites: The course is designed for PhD candidates in Economics, Business Economics, and Political Economy and Government (PEG), and any students in these programs may enroll. Qualified undergraduates, masters students, and PhD students from other programs may also enroll with the permission of the instructor if, and only if, they meet the following pre-requisites: 1) satisfactory completion or concurrent enrollment in Economics 2010a/2010b or 2020a/2020b; 2) satisfactory completion of Economics 2110, 1123, or 1126; and 3) satisfactory completion of Computer Science 50 OR significant programming experience through a research assistantship. No exceptions will be made to these pre-requisites. Students not meeting the pre-requisites are welcome to audit the course.

Material: Readings denoted by ** will be covered in depth in the lectures. Other readings may also be discussed in lecture, but not in as much detail.

Meetings: Mondays 1:00 – 2:30 and Wednesdays 1:00 – 2:15. We adjourn 15 minutes early on Wednesdays so that everyone is able to attend the Harvard-MIT development workshop, which is held at MIT on Weds, 2:45 – 4:00. All PhD students who plan to take generals in development economics should be attending the workshop whenever possible.

Requirements: There are four types of assignments: problem sets (25% of the final grade), mock referee reports (25% of the final grade), a discussion of a study on the syllabus (25% of the final grade), and a 3-5 page research paper prospectus (25% of the final grade). The assignments have been carefully designed to build skills that are used on a regularly basis by academic researchers.

There will be five problem sets. Some will focus on setting up and solving models that are typical of those used in the political economy literature, and some will emphasize developing basic programming skills needed to conduct empirical research.
There will be two referee reports, written for any two papers of your choosing on the syllabus. Please do not write a referee report on any of the books. You will also write a referee report providing feedback on a classmate’s research prospectus.

The discussion is designed to simulate the types of discussions that are often given at NBER summer institutes and other conferences. The discussion requires a 15-20 minute class presentation about a paper on the syllabus. Signup will occur after the end of the shopping period. There are important differences between a good discussion and a good referee report, and these distinctions will be explained in lecture.

The research prospectus is a 3-5 page (maximum) document that outlines an idea for an empirical research paper. It should discuss the motivation, the identification strategy, the data to be used, and the relation to the existing literature. The discussion of the existing literature should be at most one page, and attention should be directed primarily towards describing why the question is novel and important, relating the question to available data sources, and carefully outlining an identification strategy. Students should select the most compelling topic that interests them, without worry for whether the data can be obtained by the end of the course, as there is no penalty for not yet having accessed the data if a clear strategy is presented for obtaining them. During the last course of the semester, we will divide into small groups of 3-4 (assuming >4 students are enrolled), and each person will give a 20 minute presentation to others in their group. Everyone will provide written feedback, in the form of a short referee report, for others in their group.

**Deadlines:** Late problem sets will not be accepted, but the lowest problem set grade will be dropped. The first referee report is due by the last class before the spring recess (March 11), and the second is due by the last class of the semester (April 29), no exceptions, but either may be submitted at any earlier point in the semester. Signup for discussions will occur at the close of the shopping period. The research prospectus is due by May 6. **No work will be accepted after this date.**

**Readings:** Most readings will be available for download on the course website.

**Collaboration:**
- Collaboration on problem sets is permitted, but each student must hand in a separate problem set and list the names of everyone he or she collaborated with at the top of the problem set.
- Students may informally discuss their critiques of the papers they are referring, but should write their own referee report.
- Students are encouraged to seek feedback on their discussion and their research paper prospectus from other classmates.
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1. Introduction: cross-country and sub-national patterns of economic development

This lecture presents the basic patterns in the spatial distribution of income and stability, as well as providing a brief overview of the main explanations that have been given for spatial income differences. The lecture will also summarize the topics and methodologies that will be covered in the course and outline the course requirements.


2. The history of thought on political economy and economic development

The way we conduct modern research on the political economy of development is only one possibility in a large space of how research could and has been conducted. This lecture will examine how and why the methodological pendulum swung between the 1940s and 1990s, focusing on the perspectives of three Nobel Prizing winning economists: Solow, Krugman, and Stiglitz. It will also provide an overview of key methodological development since the 90s, which will be the focus of much of the rest of the course. Please be sure to read the starred readings before class and come prepared to discuss your thoughts and reactions to them.


3. Historical institutions and long-run development

The next several lectures focus on longer-run institutional determinants of economic prosperity. This lecture will also introduce two commonly used methodologies: instrumental variables and spatial regression discontinuity.


4. State Capacity and Economic Development

There will be a half hour lecture at the usual time about state capacity and economic development. In lieu of the normal full length lecture, everyone is strongly encouraged to attend the Development Workshop (held at MIT this semester), where I will present a paper on state capacity and long-run development in Vietnam. For those who cannot attend due to scheduling constraints, slides and a copy of the paper will be posted on the course website.


5. Persistence

This lecture will examine evidence about path dependence, persistence, and change.


6. Collective choice and Static Voting Models

We will spend a lecture reviewing collective choice and static voting models. While there could be an entire course or series of courses focusing only on collective choice, our main objective is to become familiar with the basics that come up frequently in the political economy of development literature.

- **Maskin, E. “The Arrow Impossibility Theorem: Where Do We Go From Here?” https://www.sss.ias.edu/files/papers/econpaper93.pdf

7. Dynamic voting and distributive policies

This lecture provides an introduction to voting over distributive policies in dynamic models. The first two readings are a review of dynamic games. If you have not worked with dynamic games recently, please be sure to carefully review these before the lecture.

- **Fudenberg, Drew and Jean Tirole (1991) Game Theory, Cambridge; MIT Press. Chapters 4, 5 and 13. If you have not solved dynamic games lately, please be sure to review this before Lecture 7.
- **Acemoglu, D. “A review of Dynamic Games” (see course website).
8. Voting: empirical evidence

This lecture will examine empirical questions about voting, in particular whether policies represent the median voter and how candidates can buy votes. The first article in the reading list is a seminal RD paper, and we will spent part of the lecture discussing this methodology.


- **Fujiwara, Thomas, "Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil." Forthcoming *Econometrica*.


- Callen, Michael and James Long (2011) "Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan," Mimeo


9. Democracy, inequality, and economic growth
This lecture will examine evidence on the relationship between democracy and inequality, and between inequality and economic growth.


### 10. Politics in non-democratic countries

This lecture explores theoretical and empirical evidence on how politics functions in non-democratic countries and the implications that this has for poverty and prosperity.

11. Democratization

This lecture will focus on models of democratization and democratic consolidation.


12. Structural change

This lecture provides background on how the sectoral composition of an economy changes as it develops. The nature of this process has potentially large implications for development policy.

- **Bustos, P., Caprettini, B., & Ponticelli, J. (2012). Agricultural productivity and structural transformation. Evidence from Brazil.**
13. Misallocation

Are productive resources significantly misallocated in developing economies, and what methodologies can be used to examine this?


14. Industrial policy

Industrial policy is amongst the topics of greatest interest to development policymakers, yet econometric evidence is in very short supply. This lecture provides an introduction to the debates surrounding industrial policy.


15. Land reform

Land reform has been a focal issue in development economics for many years, and continues to be central to ongoing debates about development, income distribution, and conflict resolution in a variety of countries today. When does land reform succeed and when does it fail? How can it be exploited by political elites?


### 16. Fiscal reform

How different are the fiscal systems of rich and poor countries, and what can be done to reform underperforming systems?


### 17. Decentralization

Decentralization has been one of the main policy priorities of the World Bank in recent decades, but its effects are not obvious. This lecture discusses various evidence.


19. *Patterns of corruption*

This lecture discusses evidence about the extent and industrial organization of corruption. It also provides several excellent examples of “forensic economics”, in which economists are able to cleverly measure illicit activity which is not directly observable.


20. Fighting corruption

This lecture discusses policy approaches for reducing corruption. It will also provide a methodological introduction to randomized control trials.


21. Organized crime, the state, and development

This lecture will examine the political economy of confronting organized crime. It will also provide an introduction to the estimation of structural models.


22. Conflict

This lecture will examine the literature on conflict and development. The first article on the reading list is a meta-analysis, and we will spend part of the lecture discussing this methodology.


23. **Foreign intervention**

In recent years, there have been a series of studies about the impacts of foreign military interventions and covert operations. These studies and their methodologies will be examined in detail.


24. **Foreign aid**

This lecture will first provide an introduction to the history of foreign aid, and how the pendulum of thought on it has swung since the 1940s. It will then discuss recent empirical evidence on foreign aid’s effectiveness.


24. Trade

International trade has been front and center of debates about development and structural change since modern economic growth started in the 19th Century. This lecture will summarize the classic debates, discuss import substitution industrialization and export led growth, and summarize some empirical evidence about trade and development.

Classic debates


Trade, productivity, inequality


• Grossman, Gene M, and Elhanan Helpman. (2014). Growth, Trade, and Inequality. NBER WP 20502

25. Small group discussions of research prospectuses

In the final lecture, we will divide into small groups of 3-4 (if there are >4 students enrolled), and each student will have 20 minutes to present and discuss their research prospectus. The final referee report for the course will be in the form of writing a short referee report for each of the other members of your group that provides constructive feedback on how the research proposal can be improved.