LABOR MARKETS IN DEVELOPING COUNTRIES
Tuesday, Thursday 6:30-8:00pm, Vanserg 107

COURSE DESCRIPTION:

This is an undergraduate course in labor economics. The course teaches core topics in the field of labor economics applied to developing countries as well as empirical methods for applied microeconomic analysis.

Labor markets are important, because most people, especially the poor, derive all or most of their income from the work they do. Therefore, labor is an important asset of poor households. Labor markets in developing countries exhibit several interesting stylized facts: a substantial fraction of the poor act as entrepreneurs, frequent temporary migration for work, lack of specialization, the businesses of the poor typically operate at remarkably small scale. This course will explore various microeconomic explanations for these phenomena.

On a macro level, the gap between rich and poor countries has grown over the past century. A hundred years ago, the wealthiest country was 11 times richer (in per capita income) than the poorest country. By 2012, the ratio of wealth of the richest to the poorest country had grown from 11 to 300. This increase in inequality is a distressing outcome for a globe that seems smaller every day; it is particularly distressing for countries that form the denominator of that wealth ratio. Is this likely to get worse? What can be done to raise the income levels of the poorest countries?

Policy prescriptions for the poorest nations are often contradictory. Although providing more employment should alleviate poverty, there is no clear consensus regarding the best policies for expanding employment opportunities in developing countries. Some argue that labor market regulations are necessary to protect the rights of workers and to improve working conditions. Others point out that most regulations discourage firms from hiring workers and thus have the unintended consequence of harming the very people they are designed to protect. Moreover, in developing countries, massive noncompliance is the norm, and regulations like a national minimum wage could simply encourage the expansion of an informal market, where wages are even lower and working conditions even worse.
The course, intended as a broad survey of labor economics, will focus on microeconomic approaches to understanding labor issues pertinent to households, markets and institutions in developing countries. For each of topic covered in the course, we will pay special attention to the identifying causal effects that inform the design of public policies, and contrast the lessons learned from this approach to those obtained from observational studies.

This course is quantitative level 2.

**OFFICE HOURS:** By appointments

**COURSE WEBSITE:** [HTTP://ISITES.HARVARD.EDU/ICB/ICB.DO?KEYWORD=K92506&LOGIN=YES](HTTP://ISITES.HARVARD.EDU/ICB/ICB.DO?KEYWORD=K92506&LOGIN=YES)

**COURSE REQUIREMENTS:**

Attendance is mandatory. Class discussions are an essential component of the sophomore tutorial. Your full participation is expected in the discussion of assigned readings and general course themes. For every unexcused absence (even when you do not facilitate discussions), I will deduct 2% from the Class facilitation component below.

**Response Papers.** 15% of grade divided among 3 (out of 4 options) response papers (~2 pp. each). Students must complete a ~2-page reading response pertaining to a journal article assigned for class (marked with #). The reading response must address all of the points below. Reading responses should be submitted online via the ‘Submission Box’ tool at the beginning of class.

1. State clearly the central research question of the paper and why is it important?
2. Why is this research paper considered an innovation?
3. How does the author use economic theory to derive testable predictions?
4. How do the authors establish causality (what is the identification strategy)? Is the approach valid, and if not, why not?
5. What data are studied?
6. How does the author improve upon previous research?
7. Summarize the main findings from the paper. How do the findings contribute to our understanding of labor or human behavior in general?
8. What is the leading alternative explanation for the findings?
9. What is the most important policy implication of the findings?
10. To what extent are the findings externally valid?
11. What other questions does this research open up?

The response papers will be due by the start of class and will be submitted via the course site. If you miss the deadline, you will be unable to submit your response paper. No extensions to this deadline will be permitted.
Class facilitation. 30% of grade divided between 2 presentations. For some classes, one to two students will be designated the lead discussant(s); this student will summarize and critique the required readings, and offer questions for discussion. Assigned presentations will be based on class discussions and readings. Presentations will include presenting the assigned paper and criticizing the assigned reading.

Short Essay: Economic Naturalist Assignment. 10% of grade. Students will complete a short paper assignment.

Empirical Exercise. 10% of grade. Students will complete one short statistical exercises in groups in preparation for the final research paper.

Final Research Paper. 35% of grade. (~ 15 pp.) You will construct a simple model, report your findings, and analyze the results. Bi-weekly meetings will be scheduled to track progress for this assignment. You can choose any topic relating to labor and development economics, subject to my approval. Start thinking about this early! The grade will be based on a prospectus (literature review) and class discussion of your topic and the final ~ 15-20 page paper itself. The prospectus should provide a basic description of the proposed research topic and will be due Thursday, April 10. The final paper will be due Friday, May 10.
## Tentative Empirical Research Project Deadlines

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<tr>
<th>Month</th>
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<tbody>
<tr>
<td>February</td>
<td>TBA</td>
<td>Familiarize yourself with a statistical software package (e.g. SAS, STATA) by attending the mandatory Stata session on Feb 11 organized by the Economics Department</td>
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<tr>
<td>March</td>
<td>Last week of March</td>
<td>Presentations in class of interesting and feasible research questions with descriptions of data available to answer them. Use the input you receive in class to finalize your research paper question.</td>
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<td>March</td>
<td>Last week of March</td>
<td>Due date for literature review on your research topic. Be sure to clearly and succinctly state your research question at the beginning.</td>
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<td>April</td>
<td>13</td>
<td>Due date for description of the empirical models you plan to estimate and for the summary statistics of the key variables. The gold standard in research is replicability; be very clear how you will organize the data and what models you will estimate.</td>
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<td>22</td>
<td>Due data for revised literature review and introduction, data, and methods sections.</td>
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<td>May</td>
<td>10</td>
<td>Due date for completed papers</td>
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**PREREQUISITES:**
Microeconomics (Economics 1010a) and Stat 100, 104 or 110.

**COURSE POLICIES:**

Attendance. Attendance is mandatory at all regular class meetings. Exceptions for personal or family emergencies will be granted on a case-by-case basis. For each class, bring copies of the assigned readings to class and expect to participate in a discussion.
Tardiness. No assignment will be accepted beyond the announced deadline. Late submissions will receive no credit. As with attendance, exceptions for personal or family emergencies will be allowed on a case-by-case basis.

Office hours. I will agree to meet with students during office hours, which I will announce at the start of the semester. If for some reason a student is unable to meet during the posted office hours, it may be possible to arrange a mutually convenient time.

Readings:

Readings cover relevant economic theory and economic history for each topic. Readings are selected from required texts, the course reading packet, and the course website. Additionally, throughout the semester, the course-pack readings will be supplemented with more recent materials.

Reading loads vary from 60 to 90 pages per week. This will depend largely on the complexity of the assigned readings. Two to three hours of preparation for each class is a reasonable demand. You are expected to complete the readings assigned for each tutorial session in advance of that session, and to attend class prepared to discuss the ideas set forth in those readings. Some of the required articles are intended for an advanced audience and will be challenging at first. Students will not be expected to understand all the mathematics or econometrics. Instead, our focus will be on grappling with the author’s key insights. We will read for enlightenment and entertainment rather than regurgitation and recitation.

Supplemental readings are intended: (1) to supplement the intellectual appetite of the more curious student, and (2) as a springboard for further research (e.g. senior thesis).

All students must come to class prepared to discuss the required readings. For each class, one to two students will be designated the lead discussant(s); this student will summarize and critique the required readings, and offer questions for discussion. All other students must come to class with at least one discussion question based on the reading.

Resources
Guides for Writing

Writing is a crucial part of the sophomore tutorial and of the Harvard experience. Development of good writing skills is essential to your success as an economist, or in any other profession.

Improving your writing skills is an important goal of this course. The paper assignments will require you to demonstrate understanding of economic arguments and models, to comfortably use the terminology of economics, and to use evidence and logical arguments to support your views and to criticize those of other writers. Papers should be well-written and free of grammatical errors. The Economics Department has produced a guide to writing that you should consult before writing your first paper.
(http://isites.harvard.edu/fs/docs/icb.topic235750.files/WritingEconomics.pdf). I also encourage you to take advantage of the services provided by the Harvard Writing Center on the Garden Level of the Barker Center (http://www.fas.harvard.edu/~wricntr/).

You should read Writing with Sources and otherwise develop a general familiarity with the University’s policies on plagiarism.

**STATA**
The Economics Department now has a Stata help site (http://isites.harvard.edu/icb/icb.do?keyword=k12758) and a Stata tutor (see website for details) for any help that you may need with your empirical exercise or final paper.

The Stata tutor contact information for Spring 2013 is:
Will Dobbie, email: dobbie@fas.harvard.edu, office: Littauer 108 (undergrad advising wing)

The Harvard School of Public Health Center for Development Studies has a practical Stata online manual at http://www.hsph.harvard.edu/pgda/WorkingPapers/2012/PGDA_WP_94.pdf. Also hosted at the Harvard School of Public Health is the Stata listserv, where over 2,500 Stata users from experts to neophytes maintain a lively dialogue about all things statistical and Stata at http://www.stata.com/statalist/. You can subscribe and ask any questions about how to implement particular data or econometric procedures in Stata!

**OTHER STUDENTS**
Your fellow students are your most important resource, and I encourage you to discuss paper topics and other ideas with each other as much as possible.

**ACADEMIC HONESTY**
The 2012-2013 Handbook for Students states: “Students who, for whatever reason, submit work either not their own or without clear attribution to its sources will be subject to disciplinary action, and ordinarily required to withdraw from the College.” You are encouraged to discuss ideas and work with your classmates, but all submitted work should be your own. In addition, all sources should be properly cited. In order to use and cite sources properly, please consult Writing with Sources: A Guide for Harvard Students, available at the Writing Center’s website (http://www.fas.harvard.edu/~wricntr/). Please contact me with any questions or concerns.

**OTHER EVENTS YOU MIGHT WANT TO ATTEND:**
If you are interested in ongoing research on population, labor and development economics issues, you may also want to attend the many seminars held each semester on campus at:
- The Economics Department: http://isites.harvard.edu/icb/icb.do?keyword=k89575
- Harvard Kennedy School: http://www.hks.harvard.edu/centers/cid/news-events/cid-seminar-series
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<tr>
<th>#</th>
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<th>Block I. Introduction, labor and econometric estimation techniques</th>
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<tr>
<td>1</td>
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<td>Introduction and what is Labor Economics?</td>
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<td>Causal inference I: Basic econometrics overview and STATA</td>
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<td>Mandatory Stata session organized by the Economics Department</td>
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<td>Causal inference II: Instrumental variables, experimental and quasi-experimental techniques</td>
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<td><em><strong>2/18/13 – Presidents’ Day Holiday</strong></em></td>
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<td>Causal inference III: Instrumental variables, experimental and quasi-experimental techniques</td>
<td>Assignment #1 handed out</td>
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<td>Film Screening: &quot;The Name of the Disease&quot; (J-PAL)</td>
<td>Assignment #2 handed out</td>
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<td>Block II. Overview of Labor Markets, Human Capital and Key Labor Markets in Developing Countries</td>
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<td>Labor Demand</td>
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<td>Labor Supply</td>
<td>Response #1 on Due Adington's paper</td>
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<td>Estimating the rate of returns to schooling in low income countries</td>
<td>Response #2 Due on Angrist''s paper</td>
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<td>Estimating the rate of returns to health</td>
<td>Response #3 Due on McLaren’s paper</td>
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<td>Agricultural markets</td>
<td>Assignment #2 Due on 3/12</td>
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<td>Film Screening: (1) These Girls are Missing and (2) The Power of the Poor</td>
<td>Lit Review Due 3/29</td>
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<td>Missing markets</td>
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<td>Block III. Behavior Economics and Labor</td>
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<td>Incentives to increase human capital</td>
<td>Response #4 Due</td>
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<td>Social Networks and Labor</td>
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<td>Self-control at Work</td>
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<td>Block IV. Institutions, Infrastructure and Entrepreneurship</td>
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<td>Regulations and Unions</td>
<td>Revised drafts of Intro/Lit Review and Empirical Model Specification Sections Due</td>
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<td>Inequality and Labor Market Discrimination</td>
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<td>Film Screening: (1) Educating Lucia and (2) Africa Open For Business</td>
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<td>Migration, Trade and the Labor Market</td>
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<td>Entrepreneurship and Labor</td>
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<td><em><strong>Reading Period Begins 5/2/13</strong></em></td>
<td>Paper due 5/10</td>
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READEINGS

Required readings are marked with a star (*), recommended readings are not starred. Response paper readings are marked with a pound sign (#): note some of them are among the supplemental readings.

Most readings are available online, and can be found on the class page. Readings not available online can be found on reserve at the Lamont library.

COURSE OUTLINE AND READINGS

I. Block I: Introduction, labor and econometric estimation techniques

1. Introduction and what is Labor Economics? (RP, January 30)

Required:

Fill out Student Info Cards on website

Fill out sheet leading three sessions


World Bank Report on "Youth and Employment in Africa"

Supplemental:


SAS and Stata tutorials
**Required:**


**Supplemental:**

SAS tutorial: [http://learn.sdstate.edu/dwight_galster/510docs/Tutorial%20Programs/sas_tutorial_contents.htm](http://learn.sdstate.edu/dwight_galster/510docs/Tutorial%20Programs/sas_tutorial_contents.htm)

Regression with Stata and SAS: [https://www.hmdc.harvard.edu/training/tutorials/](https://www.hmdc.harvard.edu/training/tutorials/)

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### 2. Basic econometrics overview

**Required:**


Basics of econometrics. Gujarati. Chapters 1; 7-9;

**Supplemental:**


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### 3. and 4. Instrumental variables, experimental and quasi-experimental techniques to identify causal impacts

**Required:**

pages 6-11 from World Bank's "Impact Evaluation in Practice" (on iSite)


Chapter 4-6 from World Bank's "Impact Evaluation in Practice" (on iSite)

Handout on Instrumental Variable Method (on iSite)

Handout on Difference-in-Difference (on iSite)

Supplemental:


II. Block II: Labor Markets and Human Capital

5. Demand for labor

Required:

Chapter 4, Borjas. Available on iSite


Skim J-PAL Youth initiative Review Paper (available on iSite)


Supplemental:


6. Labor Supply

Required:

Chapter 2, Borjas. Available on iSite


Supplemental:


DHS, PUMS and Labor Market Data for Low Income Countries

Required:
Read Data and Paper Guideline Handouts posted on iSite

7. Estimating the rate of returns to schooling in low income countries

Required:

Skim Chapter 7, Borjas (available on iSite)


Supplemental:


8. Estimating the rate of returns to health

Required:


Supplemental:


9. Agricultural Markets and Property Rights
Required:

Chapter 11, Ray (available on iSite)

Skim Chapter 12, Ray (available on iSite)


10. Missing Markets

Required:


Supplemental:


Mendola, Maria. Farm Household Production Theories: A Review of “Institutional” and “Behavioral” Responses.

III. Block III: Behavioral Economics and Labor

11. Incentives to increase human capital

Required:


**Supplemental:**

### 12. Social Networks and Labor

**Required:**


**Supplemental:**

### 13. Self-control at work

**Required:**


**Supplemental:**

### IV. Block IV: The Role Of Institutions

### 15. Regulations and Unions
**Required:**

Chapter 11, Borjas (Available on iSite)


**Supplemental:**

### 16. Inequality and Discrimination

**Inequality Readings**

**Required:**

Okojie C. Shimeles A. London: Inter-regional Inequality Facility; 2006. Inequality in sub-Saharan Africa: a synthesis of recent research on the levels, trends, effects and determinants of inequality in its different dimensions


**Supplemental:**

**Discrimination Readings**

**Required:**

Chapter 10, Borjas (Available on iSite)


**Supplemental:**


**18. Migration**

**Required:**

Chapter 10, Ray (Available on iSite)


**Supplemental:**


### 19. Entrepreneurship

**Required:**


**Supplemental:**

