

31E16000 Development Economics II

Aalto University School of Business, Economics Department

Period IV, Spring 2023, Classroom V001 Ekonominaukio 1, Language: English

Lecturer: Ritva Reinikka, Professor of Practice (ritva.reinikka@aalto.fi)

Description: This MSc (Econ)-level course focuses on economic development and development policy in low and middle-income countries. The course has three main (closely intertwined) components as described below:

- (i) **Public economics of development.** Poor people are poor because markets fail them and governments fail them. The first component of the Course analyzes public policies in developing countries from the perspective of the market failures that these policies were intended to correct, as well as the government failures created in the implementation of these policies. Health insurance and health care are especially prone for both market and government failures. Moreover, the course explores empirical research on corruption, especially the roles of political accountability and information in combatting corruption. While public economics is the focus, we also touch upon economic behavior of individuals/ households, firms and service providers.
- (ii) **Empirical microeconomics of development,** with a focus on the economics of education. Human capital is a key factor in economic growth, returns to investment in education are important for labor market outcomes, and education can be a way out of poverty. But often schooling ain't learning. Therefore, education systems—as opposed to individual interventions alone—are in the spotlight. This component also examines accountability for quality and equity in education, and how government policy can address market failures in (poor people's) private schooling and how it can improve public schools. The group assignment for participants during lectures 10 and 11 will highlight today's "method debate" in empirical microeconomic analysis of development.
- (iii) **Economics research and development policy.** How does research in development economics influence policy choices and decisions in real life? And, how does what happens in the real life affect research priorities. The course explores a few important examples, with the focus on public service delivery.

Objectives: By the end of the course students will

- (i) be conversant with a number of active research areas in development economics and the empirical approaches they use;
- (ii) be able to apply economics principles and research findings to (select) public policy issues facing developing countries today; and
- (iii) have sharpened their academic writing skills.

To achieve these objectives, lectures will (a) cover leading academic literature and relevant policy-oriented material; (b) bring in prominent international guest lecturers from academia and international finance institutions such as the World Bank; and (c) include student engagement during lectures, a group assignment, and writing a (short) Term Paper (essay). The course should also help students to come up with interesting and original research topics for their MSc-theses.

Evaluation and grading:

- (i) A final exam based on the lectures and required readings (50% of the grade) will be held on 19 April at 9am-12 noon. Details on *MyCourses* under *31E16000 Development Economics II*.
- (ii) A term paper (2,500 to 3,500 words, excluding graphs, tables and references) on one of the topics provided by the lecturer (40% of the grade). The list of topics to choose from is posted on *MyCourses* platform under *31E16000 Development Economics II*.

Please email the annotated outline of your Term Paper to the lecturer (Ritva) for her comments by cob Wednesday 22 March. Final Term Paper is due cob Friday 21 April.

- (iii) A group assignment (2-4 students) consisting of a short presentation (15 minutes or less) during lectures 10 and 11 of the course. The group assignment will focus on the current method debate in development economics (10% of the grade).

Lecture schedule and reading list:

Lectures are summarized below together with the reading list, which includes both required (marked with *) and supplementary material.¹ Lecture notes are part of the required reading. Dr Ritva Reinikka will teach the course which also features several guest lecturers.

Lectures will be held in period IV, from 27 February to 4 April, 2023 on Mondays and Tuesdays at 14:15-16:00 (12x2h) in V001 (Wihuri) in Ekonominaukio, Aalto University School of Business.

The total work requirement of *31E16000 Development Economics II* course is 160 hours (6 credits/ECTS).

Part I: Public Economics of Development

Lecture 1: Balancing market and government failure

(Monday February 27 at 14:15-16hrs)

Guest Lecturer: Professor Shanta Devarajan, Georgetown University

Synopsis: After a brief introduction to the course and participants, the first lecture focuses on key issues of market and government failure and how to balance them. Poor people are poor because markets fail them and governments fail them. This guest lecture analyzes public policies in developing countries from the perspective of the market failures they were intended to correct and the government failures created by its interventions. Using cases from education, health care, agriculture, infrastructure, sanitation, and social programs, the lecture examines whether the policies addressed the original market failures; how government failures came about; and possible remedies.

¹ Minor changes are possible during the Course.

SHANTAYANAN DEVARAJAN is a professor of the practice of international development at Georgetown University's Edmund A. Walsh School of Foreign Service. He was previously at the World Bank, where he was the senior director for Development Economics, the chief economist of the Middle East and North Africa, Africa, and South Asia regions, and the Human Development Network. He was also a director of the 2004 World Development Report *Making Services Work for Poor People*. Prior to the World Bank, Shanta was on the faculty of Harvard University's John F. Kennedy School of Government. He received a Ph.D. in economics from the University of California, Berkeley, and an A.B. in mathematics from Princeton University. Shanta's blog posts can be found on [Future Development](#).

Readings:

*Gruber, Jonathan. 2016. *Public Finance and Public Policy*. Chapter 1: Why Study Public Finance? MIT/Worth Publishers.

Keefer, Philip and Stuti Khemani. 2005. "Democracy, Public Expenditures, and the Poor: Understanding Political Incentives for Providing Public Services," *World Bank Research Observer*.

Gruber, Jonathan. 2016. *Public Finance and Public Policy*. Chapter 5: Externalities: Problems and Solutions. MIT/Worth Publishers.

Lecture 2: The public economics of health policy in poor countries

(Tuesday February 28 at 14:15-16hrs)

Guest Lecturer: Professor (emeritus) Jeffrey Hammer, Princeton University

Synopsis. Early death is arguably the worst manifestation of poverty in developing countries. Much of this premature death, and the low quality of life that goes along with it, is avoidable with well-conceived and executed public policy. But there's the rub. Setting priorities for what government should do with very limited means requires hard choices—matters of life and death. The choices are limited both by the severe resource constraints and constraints on effective implementation of programs. This lecture focuses on how economic reasoning—doing the best you can with the means available—can help inform effective policy, taking both kinds of constraints seriously. Doubts about the conventional wisdom on health policy are raised by the simplest application of economic principles.

JEFFREY HAMMER is a principal in Economists without Borders, and a non-resident Senior Fellow at the National Council of Applied Economic Research (NCAER) in Delhi, India. From 2008 to 2018 he taught development economics and health policy at the Woodrow Wilson School of Public and International Affairs at Princeton University. From 1982 to 2007 he had been a Lead Economist at the World Bank working on public economics, public expenditure, and service delivery, particularly in health. He was on the core team of the 2004 World Development Report *Making Services Work for Poor People*, and worked in the World Bank office in Delhi in 2004-07. His undergraduate degree is from Swarthmore College and Ph.D. in economics from MIT.

Readings:

*Das Jishnu and Jeffrey Hammer. 2007. "Money for Nothing: The Dire Straits of Indian Medical Care." *Journal of Development Economics*, May.

*Hammer, Jeffrey. 1997. "Economic Analysis for Health Projects." *World Bank Research Observer*, Vol 12, No 1, February. (Yes, this may look like it would be out of date but economic principles haven't changed and neither has the international health community.)

*Hammer, Jeffrey. 2013. "Balancing Market and Government Failures in Service Delivery." *Lahore Journal of Economics*, Vol. 18, September.

Das, Jishnu and Jeffrey Hammer. 2004. "Strained Mercy. Quality of Medical Care in Delhi." *Economic and Political Weekly*, February 28. Mumbai, India.

Filmer, Deon, Jeffrey S. Hammer, and Lant H. Pritchett. 2000. "Weak Links in the Chain I: A Diagnosis of Health Policy in Developing Countries." *World Bank Research Observer*, Vol. 15, August.

Filmer, Deon, Jeffrey S. Hammer, and Lant H. Pritchett. 2002. "Weak Links in the Chain II: A Prescription for Health Policy in Developing Countries", *World Bank Research Observer*, Vol. 17, Spring.

Hammer, Jeffrey. 1997. "Prices and Protocols in Public Health Care." *World Bank Economic Review*, Vol. 11, No. 3, September. (A bit more technical and on an analytic debate in health policy).

Lecture 3: Corruption

(Monday March 6 at 14:15-16hrs)

Synopsis: The lecture examines corruption in developing countries, with a focus on empirical research on electoral accountability and corruption in Brazil, and the role of information in reducing capture of public funds intended for primary schools in Uganda.

Readings:

*Ferraz, Claudio, and Frederico Finan. 2011. "Electoral Accountability and Corruption: Evidence from the Audits of Local Governments," *American Economic Review*, 101(4): 1274-1311.

*Reinikka, Ritva and Jakob Svensson. 2005. "Fighting corruption to improve schooling: Evidence from a newspaper campaign in Uganda." *Journal of the European Economic Association*, 3 (2-3): 259-267.

Kosec, Katrina and Leonard Wantchekon. 2020. "Can information improve rural governance and service delivery?" *World Development*, 125: 1-13.

Olken, Benjamin and Rohini Pande. 2012. "Corruption in Developing Countries." *The Annual Review of Economics*, 4: 479–509.

Reinikka, Ritva and Jakob Svensson. 2011. "The power of information in public services: Evidence from education in Uganda." *Journal of Public Economics* 95: 956–966.

Reinikka, Ritva and Jakob Svensson. 2004. "Local capture: Evidence from central government transfer program in Uganda." *The Quarterly Journal of Economics*, Volume 119, Issue 2: 679–705.

<https://doi.org/10.1162/0033553041382120>

Svensson, Jakob. 2005. "Eight questions about Corruption." *Journal of Economic Perspectives*, 19 (5): 19-42.

Part 2: Empirical Microeconomics of Development: Education

Lecture 4: Returns to education

(Tuesday March 7 at 14:15-16hrs)

Synopsis: The lecture reviews economics of education literature on returns to education, the impact of education on labor market outcomes, and issues related to human capital more generally in the growth theory and beyond.

Readings:

*Duflo, Esther. 2001. "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment." *American Economic Review*, 91(4): 795-813

*Glewwe, Paul, and Karthik Muralidharan. 2016. "Improving Education Outcomes in Developing Countries: Evidence, Knowledge Gaps, and Policy Implications." *Handbook of the Economics of Education*, Volume 5. Elsevier.

Montenegro, Claudio and Harry Patrinos. 2021. "A data set of comparable estimates of the private rate of return to schooling in the world, 1970-2014." *International Journal of Manpower*. DOI [10.1108/IJM-03-2021-0184](https://doi.org/10.1108/IJM-03-2021-0184)

Lecture 5: Evaluating Education Policies and Interventions

(Monday March 13 at 15:15-16hrs)

Guest lecturer: *Dr. Deon Filmer, Director, Development Research Group, The World Bank*

Synopsis: The lecture reviews evaluation literature of education policies and programs to do with the demand side (getting kids to school), students' readiness to learn, the supply side (inputs to schools), and governance/accountability reforms to improve incentives and the overall decision-making environment. Deon also discusses his own research in evaluating education policies and interventions.

DEON FILMER is Director of the Research Group at the World Bank. He has previously served as Co-Director of the *World Development Report 2018: Learning to Realize Education's Promise*, and Lead Economist in the Human Development department of the Africa Region of the World Bank. He works on issues of human capital and skills, service delivery, and the impact of policies and programs to improve human development outcomes. He has published widely in refereed journals, including studies of the impact of demand-side programs on schooling and learning; the roles of poverty, gender, orphanhood, and disability in explaining education inequalities; and the determinants of effective service delivery. He was a core team member of the World Bank's World Development Reports in 1995 *Workers in an Integrating World* and 2004 *Making Services Work for Poor People*. He holds a PhD and MA from Brown University and a BA from Tufts University.

Readings:

*Bouguen, Adrien, Deon Filmer, Karen Macours, and Sophie Naudeau. 2018. "Preschool and Parental Response in a Second-Best World: Evidence from a School Construction Experiment." *Journal of Human Resources*. 53(2): 474-512

*Filmer, Deon and Norbert Schady. 2014. "The Medium-Term Effects of Scholarships in a Low-Income Country." *Journal of Human Resources* 49(3)

Barrera-Osorio, Felipe and Deon Filmer. 2016. "Incentivizing Schooling for Learning." *Journal of Human Resources* 51(2)

Bruns, Barbara, Deon Filmer, and Harry Patrinos. 2011. "Making Schools Work: New Evidence on Accountability Reforms." [World Bank](#), Washington, D.C.

Filmer, Deon and Norbert Schady. 2011. "Does More Cash in Conditional Cash Transfer Programs Always Lead to Larger Impacts on School Attendance?" *Journal of Development Economics* 96(1)

Filmer, Deon, James Habyarimana, and Shwetlena Sabarwal. 2020. "Teacher Performance-Based Incentives and Learning Inequality." *Policy Research Working Paper* 9382, World Bank [WB PRWP 9382](#)

Lecture 6: The global learning crisis (and what dev econ has to say about it)

(Tuesday March 14 at 14:15-16hrs)

Synopsis. Even though schooling has increased massively in recent decades across the world—a great achievement of mankind—many developing countries are facing a learning crisis. Schooling ain't learning. Education systems leave a lot of children behind in learning as they progress in schooling. In India, for example, more than half of Grade 5 students have not mastered Grade 2 reading material. In Many children start to fall behind as early as Grade 3, before they have mastered foundational skills such as basic literacy and numeracy. They have little chance of catching up later. This lecture explores symptoms, diagnoses and therapeutics of the global learning crisis, with the focus on research on systems of education.

Readings:

*Beatty, Amanda, Emilie Berkhout, Luhur Bima, Thomas Coen, Menno Pradhan, and Daniel Suryadarma. 2021. "Schooling progress, learning reversal: Indonesia's learning profiles between 2000 and 2014." *International Journal of Educational Development*, 85. <https://doi.org/10.1016/j.ijedudev.2021.102436>

*Bold, Tessa, Deon Filmer, Gayle Martin, Ezekiel Molina, Brian Stacy, Jakob Svensson, and Waly Wane. 2017. "Enrollment Without Learning: Teacher Effort, Knowledge, and Skill in Primary Schools in Africa." *Journal of Economic Perspectives*, 31(4), Fall.

Le Nestour, Alexis, Laura Moscoviz, and Justin Sandefur. 2022. "The Long-Run Decline of Education Quality in the Developing World." *Center for Global Development*. Working Paper 608. Washington, D.C. February. [CGD Online](#)

Pritchett, Lant. 2019. "There is a learning crisis at the top, too: New results from PISA-D." RISE blog. https://www.riseprogramme.org/blog/learning_crisis_at_top

World Bank. 2018. World Development Report 2018. "Learning to Realize Education's Promise." Washington, D.C. <https://www.worldbank.org/en/publication/wdr2018>

Lecture 7: Accountability, Quality and Equity in Education

(Monday March 20 at 14:15-16hrs)

Guest Lecturer: Professor Jishnu Das, Georgetown University

Synopsis. Education in many low-income countries is provided through a mix of public and private schools. In this lecture, we ask two questions relevant to these settings. First, what do different systems

of accountability—public systems to public administrators or elected representatives & private systems directly to parents—imply for the provision of education, both in terms of quality and equity. Second, how should government policy respond to the fact that many children in low-income countries now have considerable choice in what school to attend. The lecture traces current debates on these questions to their historical antecedents and then uses modern economics tools to make critical progress. Policies that use state funding to support private provision on the one hand, or seek to restrict and eliminate the private sector on the other, are uncertain and variable. Instead, the lecture argues for a government policy focused on alleviating market failures and improving the quality of public schools.

JISHNU DAS, is a professor at Georgetown University, USA. His work focuses on health and education in developing countries, with an emphasis on *social markets*, or common, but complex, conflagrations of public and private education and health providers operating in a small geographical space. He has co-developed the largest cohort study on learning outcomes in low-income countries and led the agenda on healthcare quality. Jishnu’s research led to the widespread adoption of a training program for informal providers (India), health facility inspections (Kenya) and networks for private sector providers (India). He was part of the team that developed India’s federal inpatient health insurance scheme which reached 150 million people in 2016. He helped write the 2012 World Development Report on “Gender and Development” and in 2015 he was the Flander’s Visiting Professor at McGill University.

Readings:

*Andrabi, Tahir, Jishnu Das, and Azim Ijaz Khwaja. 2017. “Report Cards: The Impact of Providing School and Child Test Scores on Educational Markets.” *American Economic Review*, 107(6): 1535–1563.

*Andrabi, Tahir, Jishnu Das, and Asim Ijaz Khwaja. 2015. “Delivering Education: A Pragmatic Framework for Improving Education in Low-Income Countries.” *Handbook of International Development and Education*. Edward Elgar. [Working paper version](#)

Bau, Natalie. 2019. “Estimating an Equilibrium Model of Horizontal Competition in Education.” CEPR Discussion Paper No. DP13924. August.

Romero, Mauricio, Justin Sandefur, and Wayne Aaron Sandholtz. 2020. "[Outsourcing education: Experimental evidence from Liberia.](#)" *American Economic Review* 110, no. 2: 364-400.

Lecture 8: Agricultural Markets

(Tuesday March 21 at 14:15-16hrs)

[To be included.]

Part 3: Economics Research and Development Policy

Lecture 9: Service Delivery Indicators

(Monday March 27 at 14:15-16hrs)

Interview with Waly Wane, Lead Economist, The World Bank plus a short lecture by Ritva

Synopsis: In 2008 researchers and practitioners at the World Bank, together with the African Economic Research Consortium (AERC), developed novel survey tools to measure primary health care and primary school service delivery. The first surveys were piloted in 2010 in Senegal and Tanzania. Since then, they have been scaled up and completed in more than 20 African countries and adapted to countries outside Africa such as Indonesia, Guatemala, and Moldova. While parts of each survey speak to the local context, key aspects remain the same across countries and over time. The SDIs leverage competition across countries as the international and temporal comparability of the data allows for benchmarking across borders and tracking of changes over time. The SDI surveys collect a broad set of facility and provider specific information, based on direct observation rather than interviews alone. Data are collected through visual inspections, direct physical verification of provider presence by unannounced visits, and tests of students, teachers and health care workers. Several data sets are publicly available and used for both operational work and research. [Data portal here](#).

WALY WANE is Practice Manager in the World Bank's West and Central Africa Region, based in Abidjan, Cote d'Ivoire. He has more than 20 years of experience with the World Bank, including its research department as senior economist, Tanzania country office as a poverty economist, and the Service Delivery Indicators (SDI) initiative as Program Manager. Waly's main areas of research are public economics and service delivery. He has published his work in the *Journal of Public Economics*, *Journal of Economic Perspectives*, *Social Science and Medicine*, *Journal of African Economies*, and *BMJ Global Health*. Waly, a Senegalese national, holds PhD in mathematical economics and econometrics from the University of Toulouse, France.

Readings:

*Di Giorgio, Laura, David K. Evans, Magnus Lindelow, Son Nam Nguyen, Jakob Svensson, Waly Wane, and Anna Welander Tärneberg. 2020. "An Analysis of Clinical Knowledge, Absenteeism, and Availability of Resources for Maternal and Child Health: A Cross-Sectional Quality of Care Study in 10 African Countries." Forthcoming in *British Medical Journal (BMJ) Global Health*.

Bold, Tessa, Deon Filmer, Ezequiel Molina, and Jakob Svensson. 2019. "The Lost Human Capital Teacher Knowledge and Student Achievement in Africa." *Policy Research Working Paper 8849*, The World Bank, Washington, D.C. May.

Gatti, Roberta, Kathryn Andrews, Ciro Avitabile, Ruben Conner, Jigyasa Sharma and Andres Yi Chang. 2021. *The Quality of Health and Education Systems Across Africa: Evidence from a Decade of Service Delivery Indicators (SDI) Surveys*. Washington, DC: World Bank.

Lectures 10 and 11: Student presentations on "Method debates in development economics"

(Tuesday March 28 and Monday April 3 at 14:15-16hrs)

Synopsis: During the last two lectures participants will present the results of their group assignment (2-4 students in a group). Each presentation will be maximum 15 minutes. The group assignments will focus on current microeconomic empirical approaches and especially the method-related debate ("randomistas versus non-randomistas") active today in development economics. The papers listed below give a good idea of these debates and can be used in the group assignment. There are also many

other recent references available; participants are welcome to expand the reference list in their group assignment.

Sources to select from [to be added further]:

Angrist, Joshua D. and Jörn-Steffen Pischke. 2009. *Mostly harmless econometrics*. Princeton University Press.

Bédécarrats, Florent, Isabelle Guérin, and François Roubaud. 2017. "All that glitters is not gold. The political economy of Randomized evaluations in development." *Development and Change* 50(3): 735-762

Bold, Tessa, Mwangi Kimenyi, Germano Mwabu, Alice Ng'ang'a, and Justin Sandefur. 2018. "Experimental evidence on scaling up education reforms in Kenya." *Journal of Public Economics*. 168: 1-20.

Bouguen, Adrien, Yue Huang, Michael Kremer, and Edward Miguel. 2019. "Using Randomized Controlled Trials to Estimate Long-Run Impacts in Development Economics." *Annual Review of Economics* 11:523-61

Bruhn, Miriam and David McKenzie. 2009. "In pursuit of balance: Randomization in practice in development field experiments." *American Economic Journal: Applied Economics*, 1 (4).

Deaton, Angus. 2020. "Randomization in the tropics revisited: a theme and eleven variations." In Florent Bédécarrats, Isabelle Guérin and Francois Roubaud (eds) *Randomized controlled trials in the field of development: a critical perspective*. Oxford University Press.

Duflo, Esther, Rachel Glennerster, and Michael Kremer. 2007. "Using randomization in development economics research: A toolkit," in T.P. Schultz and J.A. Strauss (eds) *Handbook of Development Economics*, Vol. 4, pp. 3895-962. Amsterdam: Elsevier.

Meager, Rachael. 2019. "Understanding the average impact of microcredit expansions: A Bayesian hierarchical analysis of seven randomized experiments." *American Economic Journal: Applied Economics*, 11(1): 57-91. January.

Pritchett, Lant. 2020. "Randomizing Development: Method or Madness?" In Florent Bédécarrats, Isabelle Guérin and Francois Roubaud (eds) *Randomized controlled trials in the field of development: a critical perspective*. Oxford University Press.

The Royal Swedish Academy of Sciences. 2019. "*Understanding development and poverty alleviation.*" Scientific Background on the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2019. The Committee for the Prize in Economic Sciences in Memory of Alfred Nobel. Stockholm, Sweden.

Vivaldi, Eva. 2020. "How much can we generalize from impact evaluations?" *Journal of the European Economic Association* 18(6): 3045-3089.

World Development, Volume 127. March 2020. Symposium on Development and Poverty Alleviation.

Lecture 12: Wrap-up, Exam Preparation, etc.

(Tuesday April 4 at 14:15-16hrs)

[Details to come.]