14.772: Development Economics: Macroeconomic Issues

Lectures: Tuesday and Thursday 2:30 - 4:00 in E52-532

Recitations: Thursday 12:00 - 1:00 in E52-532

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Website: https://learning-modules.mit.edu/class/index.html?uuid=/course/14/sp19/14.772

Grading: 50% Problem Sets, 10% Research Proposal, 30% Exam, 10% Class Participation

There will be a few problem sets throughout the semester, these problem sets will focus on building the skills we want you to learn from the class. The problem sets will not all be worth the same amount: each problem set will indicate how much of your grade it counts for. There will also be a short research proposal due at the end of Professor Townsend’s section.
Banerjee Section

Understanding TFP (AB, 2 lectures, 2/5, 2/7)

- Karlan, Dean, Robert Osei, Isaac Osei-Akoto and Chris Udry “Agricultural Decisions after Relaxing Credit and Risk Constraints” Quarterly Journal of Economics. 129(2), May 2014
- Caselli, Francisco and James Feyrer, “The Marginal Product of Capital”, mimeo LSE.
• *Peters, Michael, 2016, “Heterogeneous Mark-Ups and Endogenous Misallocation”, mimeo Yale.

**Growth theory without aggregation (AB, 1 lecture, 2/12)**

• Banerjee, A.V. and A Newman, “Inequality, Growth, and Trade Policy”
• Topalova, Petia, “Trade Liberalization, Poverty, and Inequality: Evidence from Indian Districts”, mimeo, IMF.
Collusion and competition (AB, 2/14)

- *Mitra, Sandip, Dilip Mookherjee, Maximo Torero and Sujata Visaria “Asymmetric Information and Middleman Margins: An Experiment with Indian Potato Farmers” forthcoming in Review of Economics and Statistics

Non-market macroeconomics (AB, 3 lectures, 2/21, 2/26, 2/28)

Matching


Networks

• *Cai, Jing, and Adam Sziedl. “Interfirm Relationships and Business Performance,” forthcoming, Quarterly Journal of Economics
• *Banerjee, Abhijit, Arun Chandrasekhar, Esther Duflo and Matthew O. Jackson Using gossips to spread information: Theory and evidence from two randomized controlled trials (with), NBER working paper w20422 [forthcoming at The Review of Economic Studies]
• *Banerjee, Abhijit, Emily Breza, Arun Chandrasekhar and Ben Golub When less is more: Experimental evidence on information delivery during India’s demonetization, Working Paper, 2018.
Townsend Section

Lecture 1 - Economics as Experiments

A Unified View, Models as Fully Articulated Systems and Laboratories, Prediction and Validation, Theory and Measurement Unified, Actual and Counterfactual Policy, When it Works and When Not, A Deeper History of RCTs, Scaling up to General Equilibrium Effects and Spill Overs, Randomization, Difference in Difference and IV, Policy Parameters, or Not: A Cautionary Tale.

Economic Science*


Experiments Past and Present

- A failure to communicate: what (if anything) can we learn from the negative income tax experiments? The Journal of Socio-Economics Volume 34, Issue 1, February 2005, Pages 49-81
- The economics and econometrics of active labor market programs JAMES J. HECKMAN* ROBERT J. LALONDE*JEFFREY A. SMITH* Handbook of Labor Economics, Volume 3, Edited by A. AshenJelter and D. Card

Scaling Up
Two Related Recent Initiatives at Y-Rise:
  o Spillover, Network, and Equilibrium Effects of Policy Interventions
  o Macro, Growth and Welfare Effects of Policy Interventions


Instrumental Variables


Lecture 2 – Structural vs. Reduced Form and Hybrids In-Between

Sufficient Statistics and Reduced Form Approaches to Welfare, Key Elasticities, Recovering Policy Functions from Data, Sufficient Data for Counterfactual Policy Heterogeneity in Treatment Effects, Limited Insurance and Inequality.

The Lucas Critique, the Need for Structural Models


Intermediate Approaches


Informative Elasticities


Recovering Policy Functions from Data

Steven Berry and Giovanni Compiani (2019), "An Instrumental Variables Approach to Dynamic Models". 
https://drive.google.com/file/d/1pl1PW1w8eh3gnrTMKUBuS6T6TIKtvf9c/view

Sufficient Data for Counterfactual Policy


Heterogeneity in Treatment Effects, Limited Insurance, and Inequality


doi:10.3982/ECTA13795


Lecture 3 – Risk Sharing


Basic Risk-Sharing


Risk-Sharing and Institutional Evaluation, Counterfactuals and Welfare Loss


Alternative Approaches to Consumption Smoothing and Risk Sharing


Lecture 4 – Networks


Risk Sharing and Networks


• *Cynthia Kinnan, Krislert Samphantharak, Robert Townsend, and Diego Vera-Cossio. "Risk-sharing, economic networks and the transmission of shocks.”

• Parit Sripakdeeveong and Robert Townsend. The Village Money Market Revealed: Credit Chains and Shadow Banking.


Risk Sharing Networks and Poverty Traps


Networks and Supply Chains


• Liu, Ernest 2018. "Industrial Policies in Production Networks”.

• Huneeus, Federico 2019. Production Network Dynamics and the Propagation of Shocks.

Lecture 5 – Currency and Welfare Losses

The Inefficient Use of Petty Cash, How to Quantify Using Theory and Data, A Macro Experiment: India’s Demonetization - Data and a Structural Model, Hyperinflation in Zimbabwe, Argentina, and Venezuela, Measuring the True Cost of Inflation without Models, Simple Demand Statistics.

• *Fernando Alvarez, Anan Pawsutipaisit and Robert M. Townsend "Cash Management in Village Economies".

Demonetization in India

• *Chodorow-Reich, Gabriel, Gita Gopinath, Prachi Mishra, and Abhinav Narayanan 2019. Cash and the Economy: Evidence from India's Demonetization

Welfare Costs of Inflation

• Alvarez, Fernando, Martin Beraja, Martin Gonzalez-Rozada, and Andy Neumeyer. From Hyperinflation to Stable Prices: Argentina's Evidence on Menu cost Models, September 2018. Forthcoming, Quarterly Journal of Economics
• https://en.wikipedia.org/wiki/Hyperinflation_in_Zimbabwe

Lecture 6 – Risk Sharing and Intermediation with Obstacles to Trade

If we reject full risk sharing, what is the reason? Is one obstacle as good as any other as an explanation of the data? Are policy gains and losses sensitive to the obstacle assumed or estimated? Distinguishing Models of Obstacles via Covariance Sign Restrictions, Private Information, Messages, Intertemporal Tie-Ins, Likelihoods and Tests for Non-Nested Models, Methods that Work in a Variety of Applications, Resolving the Excess Smoothing Puzzle.


Lecture 7 – Limited Commitment as an Obstacle

Out of Village Migration and Limited Commitment, Public Policy for Insurance and Limited Commitment, Inequality Implications, Commitment as an Obstacle and Implications for Risk Sharing, Heterogeneous Obstacles and Across-Region and Within-Country Flow of Funds, Flows Across Countries and Endogenous TFP Distortions.


Policy Aspects


Implications for Inequality


Costly State Verification and Inefficiency


Lecture 8 – Life Cycle

- "Extraordinary Financial Lives of Ordinary People," Chapters 3 and 4, case studies, life cycle planner

**Life Cycle Models**

**With Limited Insurance**


**With Credit Constraints**


**With Transaction Costs and Liquidity Constraints**


**Lecture 9 – Village Level Intervention**


- Hong Ru and Robert Townsend, “Narrowing the GAP: The Costly State Verification Regime in Rural Thailand,” 2019

Lecture 10 – Spillovers and Scaling Up

What are the spatial spillovers of village interventions? A Scaled Up RCT on 50,000 Villages, Patterns in the Data, Constructing a Model Based on Previous Village Economy Work, Household and Village Level Heterogeneity and the Welfare Impact of Liberalized Inter-Regional Trade and Financial Flows, Gains and Losses for Case Study Profiled Households.


Lecture 11 – Industrial Organization, Welfare, and Interventions


• *Optimal Contracting and Spatial Heterogeneity Among Financial Service Providers. Robert M. Townsend, Victor V. Zhorin, and Gustavo Joaquim


Lecture 12 – Micro-founded Macro Models

we identify and distinguish among key obstacles/constraints in country level data? How do we choose a policy a priori based on predicted GDP/TFP and inequality impacts?

- Ji Yan and Robert M. Townsend, Bank Branch Expansion vs International Capital Flows: Integrating Local Spatial Markets and Macro Aggregates, 2018

**Lecture 13 – Bitcoin, Blockchain, and Distributed Ledgers**


Olken Section

**Infrastructure (2-3 lectures)**


**Infrastructure and Productivity**


Subsidies and Pricing

Distributional effects

Urban and development (2 lectures)

Agglomeration and the Rise of Cities in Development

Transportation in Developing Countries

**Environment and Development (2 lectures)**

**Determinants of environmental damage**

**Incomes**


**Externalities**

• * Balboni, Clare, Robin Burgess, and Benjamin Olken. “Strategic Fire Setting: Evidence from 100,000 Forest Fires in Indonesia.” Mimeo.

**Policy Solutions**


**Governance Challenges**


**Consequences of environmental damage**


**Time permitting: The Resource Curse**

• Macro level

• Micro level