14.772 Development Economics: Macroeconomic Issues  
Spring 2011

Lectures: TTh 2:30-4:00 in E51-361  
Recitations: Th 12:00-1 in E51-151

Instructors:  
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Website:  
MIT https://stellar.mit.edu/S/course/14/sp11/14.772/

Prerequisites:  
This class contributes to the fulfillment of requirements for the Development field for Economics Ph.D. students at MIT. People other than Economics Ph.D. students should consult with the instructors before enrolling. The fall class (MIT 14.771) is a prerequisite for the spring class. Students should also have taken or be concurrently taking PhD level macroeconomics, microeconomics, and econometrics.

Requirements:  
There will be two problem sets for the class. One problem set will cover theoretical and empirical problems discussed in the class. The second problem set will consist of a research proposal based on the covered material. The proposal should consist of a research strategy to address questions that came up during the class. Ideally such proposals could lead to a third year paper. We will discuss your proposals during the last lecture of the class. The grade for this part of the class will be determined by both the problem sets and class participation.

Readings:  
Most readings can be reached through the s on the stellar website. Please inform the TA of any broken links. You may need to be on campus to access links to copy-written materials (e.g. NBER working papers, JSTOR). Readings that are not available online will be available via library reserve.

Development Seminar:  
Everyone is encouraged to attend the Development Seminar, which meets on Wednesdays, 2:30 - 4:00 p.m. at MIT in Room E51-376 and the Macro Seminar, which meets Tuesdays, 4.15 = 5:45 at MIT in the Freeman Room. The website for the Development Seminar is http://econ-www.mit.edu/events/index.htm. The Development Seminar begins meeting in the spring semester on February 2nd. When there is an out-of-
town speaker, we normally take the speaker out to dinner, and we will try to save a couple of spots for graduate students each time. If you are interested in coming to dinner with a particular speaker, inform Jessica Colón (MIT, 253-3807, jcolon@mit.edu).

Development Lunch:
Everyone is also encouraged to attend the Development Lunches or the Macro Lunches. Unfortunately both lunches meet at the same time, namely Mondays from 12:00PM to 1:00PM. The development lunch meets in Building E51-095, the macro lunch in the Freeman Room.

SCHEDULE

Risk Sharing

March 29: Introduction / Risk Sharing

March 31: Methods of Risk Sharing: Networks

RECITATION 1: Basics of Risk-Sharing

April 5: Risk-Sharing Extended: Returns on Assets and Labor Supply
Main Reading:
- Samphantharak and Townsend (2009), “Risk and Return in Village Economies”
- Bonhomme, Chiappori, Townsend, Yamada, “Sharing Wage Risk”

April 7: Implications of heterogeneity: Endogenous Sorting and Matching
Main Reading:
- Schulhofer-Wohl, “Heterogeneity and Tests of Risk Sharing”

Financial Frictions

April 12: Barriers to Risk-Sharing
Main Reading: Kinnan, Cynthia, “Distinguishing barriers to insurance in Thai villages”

April 14: Testing for the Micro underpinning
Main Reading:
  • Rob Townsend and Alexander Karaivanov, “Dynamic Financial Constraints: Distinguishing Mechanism Design from Exogenously Incomplete Regimes”
Related readings:
  • Alexander Karaivanov, Sonia Ruano, Jesus Saurina and Rob Townsend (2010), "No Bank, One Bank, Several Banks: Does It Matter for Investment?"

RECITATION 3: Caballero, Antras, Trade and Capital Flows, A Financial Frictions Perspective, JPE

April 19 NO CLASS DUE TO PATRIOTS DAY

April 21: Financial Frictions and General Equilibrium (1/2)
Main Reading: Archawa Paweenawat and Rob Townsend, "Villages as Small Open Economies," 2009

RECITATION 4: Numerical methods to calculate the equilibrium for economies with credit constraints

April 26: Financial Frictions and General Equilibrium (2/2)
Benjamin Moll, Rob Townsend and Victor Zhorin, “Entrepreneurship, Inequality and Growth with Information Constrained Factor Markets”

Welfare and the Evaluation of Impact: Reduced Form Econometrics and Structural Parameters

April 28: Policy and Welfare using Reduced Form Evidence
Main Reading:
RECITATION 5: Heckman Vytlacil, Structural Equations, Treatment Effects, and Econometric Policy Evaluation, Econometrica

May 3: Interpreting Reduced Form Evidence through the lens of a structural model and calibration
Main Readings:
- Kenneth Wolpin, Ex ante Policy Evaluation, Structural Estimation and Model Selection, AER PP
- Keane, Wolpin, Empirical Applications of discrete choice dynamic programming models, RED, 2009

May 5: Policy Evaluation using Structural Methods


Development and IO

May 10: TBD

May 12 : Presentation of research proposals and general discussion