

Development Economics

44423

Course outline

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Aim of the course

Economic development is the process of gradual improvement in material well-being of individuals. At the macro level development economics studies why some countries have high standards of living, while others do not. At the micro level, development studies the functioning of markets in low income countries, with the ultimate goal of addressing market failures and lifting individuals out of poverty. Almost all topics in Economics have a counterpart in development economics. A quick look at the reading list shows the wide range of topics covered in this course. This, however, is only a selection of topics from the array of development issues.

The context of developing countries proves to be challenging for conventional economic models due to prevalence of market failures. Although textbook models of economic behavior are useful starting points for thinking about issues in developing countries, the situation often requires a careful investigation of the plausibility of assumptions in a developing context. For example, we will see that poor households are unable to access formal credit from banks and instead rely on alternative and sometimes more expensive sources like moneylenders. This is because the degree of information asymmetries and strength of contract enforcement makes formal credit unviable.

The aims of this course are to:

- discuss key issues in the process of economic development
- enhance students' ability in applying economic models to study development problems
- discuss the relevant empirical literature with an eye toward forming policy recommendations.

This is a master's level course that relies heavily on academic papers. We discuss both theoretical and empirical research in the field of development economics. However, the main focus

of the course is on empirical development economics. We, therefore, rely heavily on econometrics methods of causal identification. Hence, prior understanding of econometrics is required. A good understanding of micro and macroeconomics theory is essential for this course. The course is split into three parts and several topics under each part as described below. You can find the full reading list in a separate file.

Topics

Part I: Cross-country differences and macro models of development

- Concept and measurement of economic development and the characteristics of developing countries.
- Models of economic growth and development including endogenous growth theories and multiple equilibria models and their potential in explaining income disparities across countries.
- Role of history and institutions in shaping current economic outcomes and explaining development.

Part II: Markets in developing countries

- Importance of agriculture and land reform in shaping lives of the poor. Forms of agricultural contracts.
- Forms of credit markets in developing countries. Microfinance and its impacts on the lives of the poor.
- Understanding demand for education, role of education infrastructure, and the incentives of education providers in developing countries.
- Demand for health and nutrition in developing countries, and provision of public health services.

Part III: State and the process of development

- Poverty alleviation
- Infrastructure and its impact on development.
- Environment and development.
- Taxation and development, informal economy and tax evasion.
- Corruption and the efficiency of the bureaucracy.
- Development aid and its effectiveness in improving outcomes.

Lectures and classes

Lectures will be held on *Saturday* and *Monday* 9:30 - 11:00.

There are weekly tutorial classes where you will have a chance to discuss your solutions to assignments.

Attendance in both lectures and classes is mandatory and we will monitor your record carefully.

Evaluation

- Class participation (5%): Presence is the most basic form of participation, but this course requires active engagement in class discussions which will form part of the course assessment.
- Midterm exam (30%): closed book written exam.
- Final exam (30%): closed book written exam.
- Assignments (15%): These are crucial elements of our course and you must submit all assignments before the start of the classes.
- Referee report (5%): You would need to write a referee report on a paper.
- Presentation (10%) and Project (10%): You will be asked to deliver a presentation on a selected topic. You will be then required to submit a 1500 word essay based on your presentation. You are free to propose any topic that relates to the topics covered in the course. Topics should be finalized by the end of Aban.