

Development Economics

Aim

This PhD course consists of two parts. The first part of the course will aim at providing a broad review and assessment of the aid and development literature. Focus will be on ongoing debates from the perspective of the aid effectiveness literature as it has developed over the past couple of decades, on the one hand, and competing paradigms of development, on the other. This part of the course will focus on broader more traditional themes including historical background on development thinking, aid allocation, the impact of foreign aid, the current aid and development debate and newer trends. While the first part of the course identifies endogeneity of aid as a key challenge, the second part will address the issue of designing identification strategies more specifically. Focus will be on the causal relationship between institutions and economic outcomes, and both macro and micro approaches will be covered. The former relies on observational data and identification rests on the discovery of a novel instrument; whereas the latter relies on quasi-experimental and experimental designs such as natural experiments and randomized field experiments to obtain exogenous variation in treatment assignment. The issue of identification via randomized field experiments is key to the methodological debate in the so-called “new development economics” on what constitutes valid causal inference.

A list of readings is included below with key readings marked with *. Papers intended for student presentation are marked +.

Structure

9.00 - 10.30: First lecture
10.30 – 11:00: Break
11:00 - 12.30: Second lecture
12.30 - 14.00: Lunch
14.00 – 17.00: Readings
17.00 - 17.30: Student presentations
17.30 - 18.00: Floor discussion

Lectures will be given in the morning. After lunch we will assign a paper to a group of students, which they are expected to present and discuss. The paper will be closely related with the papers covered during the morning lectures. Student presentations are meant to: (i) briefly explain the aim and content of the paper; (ii) discuss how it relates to the paper covered during the morning lectures; and (iii) identify the strengths/weaknesses in the paper. The floor discussion is meant to exchange thoughts on the material covered and identify research ideas.

READINGS: PART I

Alesina, A. and Dollar D. (2000) ‘Who Gives Foreign Aid to Whom and Why?’, *Journal of Economic Growth*, 5(1): 33-63.

Berthélemy, J.C. (2006) ‘Bilateral Donors’ Interest vs. Recipients’ Development Motives in Aid Allocation: Do All Donors Behave the Same?’, *Review of Development Economics* 10: 179–194.

- Berthélemy, J.C, and A. Tichit (2004) 'Bilateral Donors' Aid Allocation Decisions: A Three-dimensional Panel Analysis, *International Review of Economics and Finance* 13: 253-274.
- Birdsall, N., Rodrik, D. & Subramanian, A. (2005) 'How to Help Poor Countries', *Foreign Affairs* 84, <http://www.cgdev.org/doc/commentary/FAhelp.pdf>
- Boone, P. (1994) 'The Impact of Foreign Aid on Savings and Growth. London School of Economics', CEP Working Paper 677.
- Boone, P. (2006) 'Effective Intervention, Making Aid Work', CEP Centre Piece Winter 2005/2006 edition, available at <http://cep.lse.ac.uk/centrepiece/default.asp>.
- +Bourguignon, F. & Sundberg, M. (2007) 'Aid Effectiveness – Opening the Black Box', *The American Economic Review*, 97 (2): 316-321.
- *Burnside, C. and Dollar, D. (2000) 'Aid, Policies, and Growth', *American Economic Review*, 90: 847–68.
- Cassen, R. and Associates (1994), *Does Aid Work?* Clarendon Press, Oxford.
- Chenery, H. B. and Strout, A. M. (1966) 'Foreign Assistance and Economic Development', *American Economic Review*, 56: 679–733.
- +Clemens, M., Radelet, S. and Bhavnani, R. (2004), 'Counting chickens when they hatch: the short-term effect of aid on growth', Working paper 44, Center for Global Development, Washington, DC., available at <http://www.cgdev.org/Publications/index.cfm?PubID=130>.
- Collier, P. (2007) *The Bottom Billion: Why the Poorest Countries are Failing and What Can be Done About It*. Oxford University Press, Oxford.
- Commission for Africa (2005) *Our Common Interest: An Argument*, Penguin Books, London.
- *Dalgaard, C.J., Hansen, H. & Tarp, F. (2004) 'On the Empirics of Foreign Aid and Growth'. *Economic Journal*. 114(496): F191-F216.
- Easterly, W. (2006), *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done so Much Ill and so Little Good*, Penguin Press, New York.
- +Easterly, W. (2007) 'Are Aid Agencies Improving?', *Economic Policy*, October: 633-78.
- *Hansen, H. & Tarp, F. (2000) 'Aid Effectiveness Disputed', *Journal of International Development*, 12(3): 375-98.
- *Hansen, H. & Tarp, F. (2001) 'Aid and Growth Regressions'. *Journal of Development Economics*, 64(2): 547-570.
- International Monetary Fund (2005) 'The Macroeconomics of Managing Increased Aid Inflows: Experiences of Low-Income Countries and Policy Implications', Policy Development and Review Department.
- Jones, S. & Tarp, F. (2008) 'Foreign Aid and the Bottom Billion', *IDS in Focus* 3, no. 12. http://www.ids.ac.uk/UserFiles/File/publications/in_focus/InFocus_03.12.pdf
- Killick, T. & Foster, M. (2007) 'The Macroeconomics of Doubling Aid to Africa and the Centrality of the Supply Side', *Development Policy Review*, 25 (2): 167-192.
- Mosley, P., Hudson, J. and Verschoor, A. (2004) 'Aid and Poverty Reduction and the 'New Conditionality'', *Economic Journal*, 114: 217–243.

- *Rajan, R.G. & Subramanian, A. (2007) 'Aid and Growth: What Does the Cross-Country Evidence Really Show?', Forthcoming *Review of Economics and Statistics*, <http://www.iie.com/publications/papers/subramanian0707.pdf>
- Riddell, R. (2007), *Does Foreign Aid Really Work?*, Oxford University Press, Oxford.
- Robinson, S. & Tarp, F. (2000) 'Foreign Aid and Development: Summary and Synthesis' (pp. 1-14) in F. Tarp (ed.) *Foreign Aid and Development: Lessons Learnt and Directions for the Future*. London and New York: Routledge.
- Roland-Holst, D. & Tarp, F. (2004) 'New Perspectives on Aid Effectiveness'. Chapter in part I (pp. 43-62) in B. Tungodden, N. Stern, and I. Kolstad (eds.) *Toward Pro-Poor Policies - Aid, Institutions and Globalization*. Washington and New York: World Bank/Oxford University Press.
- Roodman, D. (2004) 'The anarchy of numbers: aid, development, and cross-country empirics', Working Paper 32, Center for Global Development, Washington, DC, available at <http://www.cgdev.org/content/publications/detail/2745>
- Roodman, D. (2007) 'Macro Aid Effectiveness Research: A Guide for the Perplexed', Working Paper 135, Center for Global Development, Washington, DC, available at <http://www.cgdev.org/content/publications/detail/15003>
- Roodman, D. (2007) 'A Short Note on the Theme of Too Many Instruments', Working Paper 125, Center for Global Development, Washington, DC, available at <http://www.cgdev.org/content/publications/detail/14256>
- Sachs, J. (2005), *The End of Poverty: Economic Possibilities for Our Time*, Penguin Press, New York.
- Svensson, J. (2000) 'Foreign aid and rent-seeking', *Journal of International Economics*, 51: 437-461.
- Svensson, J. (2003) 'Why conditional aid doesn't work and what can be done about it?' *Journal of Development Economics*, 70: 381-402.
- Tarp, F. (ed.) (2000) *Foreign Aid and Development: Lessons Learnt and Directions for the Future*. London and New York: Routledge.
- Thorbecke, E. (2000) 'The evolution of the development doctrine and the role of foreign aid, 1950-2000', in F. Tarp (ed.) *Foreign Aid and Development: Lessons Learnt and Directions for the Future*, Routledge, London and New York.
- *Tarp, F. (2006) 'Aid and Development'. *Swedish Economic Policy Review*, 13(2), 2006, pp. 9-61.
- Tarp, F. (2008) 'Foreign aid'. *The New Palgrave Dictionary of Economics*. Second Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, The New Palgrave Dictionary of Economics Online.
- World Bank (1998) *Assessing aid: what works, what doesn't, and why*, Oxford University Press, Oxford.
- World Bank (2002) *A case for aid: building a consensus for development assistance*, World Bank, Washington, DC.
- See also various articles in *Review of World Economics* Volume 143, Number 4 / April, 2007

READINGS: PART II

- *Hall, R. and Jones, C., 1999. Why Do Some Countries Produce So Much More than Others? *Quarterly Journal of Economics* (February): 83-115
- *Acemoglu, D., et al., 2001. The Colonial Origins of Comparative Development: An Empirical Investigation. *American Economic Review* 91: 1369-1401
- *Albouy, D., 2008. The Colonial Origins of Comparative Development: An Investigating of the Settler Mortality Data. NBER Working Paper 14130
- +Glaeser, E., et al., 2004. Do Institutions Cause Growth? *Journal of Economic Growth* 9: 271-303
- +Sachs, J., 2003. Institutions Don't Rule: Direct Effects of Geography on Per Capita Income, NBER Working Paper No. 9490
- *Banerjee, A. and L. Iyer, 2005. History Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India. *American Economic Review* 95: 1190-1213
- *Frankel J. and D. Romer, 1999. Does trade cause growth? *American Economic Review*, 89, 379-99.
- *Andersen, T. and C.-J. Dalgaard, 2008. Cross-Border Flows of People, Technology Diffusion and Aggregate Productivity, Mimeo (University of Copenhagen)
- +Rodrik D., A. Subramanian and F. Trebbi, 2004. Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development. *Journal of Economic Growth*, 9, p. 131-165.
- *Andersen, T. et al., 2008. The Internet, Digital Information, and Corruption: Evidence from U.S. States and Across Countries. Mimeo (University of Copenhagen)
- *Olken, B., 2007. Monitoring Corruption: Evidence from a Field Experiment in Indonesia. *Journal of Political Economy* 115: 200-249
- *Ferraz, C. and F. Finan, 2008. Exposing Corrupt Politicians: The Effects of Brazil's Publicly-Released Audits on Electoral Outcomes. *Quarterly Journal of Economics* 123: 703-745
- +Rodrik, D., 2008. The New Development Economics: We Shall Experiment, But How Shall We Learn? Mimeo (Harvard University)
- +The Economist, Jun 12th 2008, Control Freaks, Economics Focus