

University of Pennsylvania
The Wharton School

BEPP 203
Fall 2012

BUSINESS IN THE GLOBAL POLITICAL ENVIRONMENT

Professor Robert Jensen

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Office Hours: R 4:30 - 6:00

Class: 002: *SH-DH 215* TR 1:30-3:00
Class: 003: *SH-DH 215* TR 3:00-4:30

Teaching Assistants:

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Description: The environment of business has market and nonmarket components. The market component is characterized by the economics of an industry and a firm's position in it. The nonmarket component is the broader political, regulatory, legal and civil context in which companies function. This course will focus on various dimensions of that context. We will devote considerable attention to market failures (e.g., externalities, public goods, market power, asymmetric information, principal-agent problems) and the theory of policy response. Most lectures will present one or more focal economic concepts and analyze an application in reference to the concepts. The applications will be drawn from around the world.

Reading Materials: The lectures provide the primary course content, and the instructor will provide detailed handouts before each class. There will be supplemental, optional readings, drawn from a range of sources, all of which are available online; there is no textbook or reading packet for this course. PowerPoint slides from the lectures will be posted on Canvas.

Grades and Assignments: There will be three problem sets, two in-class exams and a team presentation. The schedule below provides the dates in **RED**. No credit will be given for late problem sets. The weighting of these assignments in the final grade will be as follows:

First Exam (Sessions 1-11)	30%
1 st Problem Set	10%
2 nd Problem Set	5%
3 rd Problem Set	5%
Team Presentations	20%
Second Exam (Sessions 13-22)	30%

Exams: Both exams will be closed book. The first exam will focus on the economic concepts and applications from Sessions 1-11 and the second will focus on Sessions 13-24.

Students will be given a period of one week from the date the exam is returned to request a regrade. The BEPP Department maintains a photocopy of all exams. All requests must be made in writing to Professor Jensen stating the reason they believe they should receive a regrade no later than the close of business on the day which is one week after the exam is made available. Note that the entire exam will be reviewed during a regrade, not only the questions/answers requested, and a regrade may be higher or lower than the original grade. We have established this regrade procedure to ensure fairness for all students, and thus Professor Jensen will not discuss specific exam questions until the re-grade period is over.

Team Presentations

Overview: Students will self-organize into teams (about 4-5 students per team, depending on class size). Presentations will focus on either a core concept or an application of that concept.

You should take advantage of your Team Assistant (TA), whose main role is as a communications coach. The TA is there to help you at both the formulation phase and the rehearsal phase. Ideally, you should rehearse, reformulate, and rehearse again in the last few days before your presentation. TAs will reserve rehearsal space.

Hand in: Team participants must hand in a one page summary (bullet points are fine) as well as complete PowerPoint slides in class *on the day of the presentation*, and the slides must also be submitted by email. Please number the slides in your slide deck.

Topics, Dates, and Sign-up Logistics: Team group assignments are handled through Canvas. Presentation sign up will occur in early- to mid-October and will be announced in class and electronically.

Please note the following:

- You must sign up individually (Canvas requires this).
- Assignment topic/date options will be available on a **first-come, first choice basis**.
- Students not signed up by the presentation sign-up deadline will be randomly assigned to one of the remaining groups. The student will not be permitted to choose which group to join.
- No student will be permitted to change groups after the presentation sign-up deadline. There are no exceptions to this policy (this is to maintain fairness to all students who might want to switch after the deadline and the difficulties in re-organizing groups multiple times).

Grades: The professor will grade each team project, using as a guide the feedback of your fellow students, as well as instructor judgment about the relevance of student use of economic concepts and comparison to relevant cases.

Each team project will receive one group grade. All students in the team will receive this same grade for their team assignment. Students who fail to participate fully in team presentations will lose credit on their class participation grade.

Code of Academic Integrity: All students enrolled in courses in the Business Economics and Public Policy Department (including Insurance and Risk courses) are expected to comply with the University of Pennsylvania's Code of Academic Integrity. We encourage all students to read the Code so that they are well aware of all situations that would be considered a violation.

It is the policy of the Department of Business Economics and Public Policy to immediately fail any student who is to be in violation of the Code. Cheating, in any manner, on a graded assignment or exam will result in failing both the assignment/exam and the course. In addition to the sanctions imposed by the Department of Business Economics and Public Policy, the Office of Student Conduct may impose additional sanctions.

Please review the Code of Academic Integrity on the below link as well as example of violations and possible sanctions: http://www.upenn.edu/provost/PennBook/academic_integrity_code_of

Support Functions: BEPP support staff (bpub@wharton.upenn.edu) will keep a wait-list, if needed. Please include 'BEPP 203 Wait List' as the subject of any e-mail regarding this. Beth Moskat (emoskat@wharton.upenn.edu) will provide classroom support.

Non-Wharton Students: To access Canvas, non-Wharton students must first apply for a Wharton Computing account. This can be done online at <http://accounts.wharton.upenn.edu> for students that are already officially registered for the class. If there is any difficulty with doing this online, go to WCIT (F-35 JMH), and apply there.

Tutoring Support: Students experiencing difficulty in this course should seek assistance from the Penn Tutoring Resource Center. Refer to the Wharton Undergraduate homepage for the schedule of walk-in tutoring hours. Private tutors from the Tutoring Center can be obtained (without cost) through the recommendation of a professor or professional advisor in the Undergraduate Division. Students who wish to inquire more about tutoring, study skills, learning disabilities, test-taking strategies, time management, or reading/writing coaching should call 215-573-9235 for more information.

I. CONSUMERS AND CONSUMPTION IN THE GLOBAL ECONOMY

Session 1. (Thursday Sep. 6). Consumer Theory: Life in the Global Economy

Banerjee, Abhijit V., and Esther Duflo. 2007. "The Economic Lives of the Poor." *Journal of Economic Perspectives*, 21(1), p. 141–168.

UNDP (2011). Human Development Report, 2011. United Nations Development Program: New York. <http://hdr.undp.org/en/reports/global/hdr2011/>

ASSIGNMENT: PROBLEM SET 1

Session 2. (Tuesday Sep. 11). The Household and the Principle-Agent Problem

Alderman, Harold, Pierre-Andre Chiappori and Lawrence Haddad (1995). "Unitary vs. Collective Models of the Household: Is it Time to Shift the Burden of Proof?" *World Bank Research Observer*, 10(1), p. 1-19.

Hayashi, Fumio (1995). "Is the Japanese Family Altruistically Linked? A Test Based on Engle Curves," *Journal of Political Economy*, 103(3), p. 661-674.

Lundberg, Shelly J., Robert A. Pollak and Terence J. Wales (1997). "Do Husbands and Wives Pool Their Resources? Evidence from the United Kingdom Child Benefit," *Journal of Human Resources*, 32(3), p. 463-480.

Mobarak, Mushfiq and Grant Miller (2012). "Intra-household Externalities and Low Demand for a New Technology: Experimental Evidence on Improved Cookstoves," mimeo, Yale University.

Stevenson, Betsey and Justin Wolfers (2006). "Bargaining in the Shadow of the Law: Divorce Laws and Family Distress," *Quarterly Journal of Economics*, 121(1), p. 267-288

Thomas, Duncan (1990). "Intrahousehold Resource Allocation: An Inferential Approach." *Journal of Human Resources*, 25(4), p. 635-664.

Thomas, Duncan (1994). "Like Father, Like Son; Like Mother, Like Daughter: Parental Resources and Child Height," *Journal of Human Resources*, 29(4), p. 950-88.

Udry, Christopher (1996). "Gender, Agricultural Production, and the Theory of the Household," *Journal of Political Economy*, 104(5), p. 1010-1046.

Session 3. (Thursday Sep. 13). Moral Hazard and Adverse Selection I: Risk & Insurance

Cochrane, John H. (1991). "A Simple Test of Consumption Insurance," *Journal of Political Economy*, 99(5), p. 893-920.

Jensen, Robert (2001). "Agricultural Volatility and Investments in Children," *American Economic Review, Papers and Proceedings*, 90 (2), p 399 – 404.

Maccini, Sharon and Dean Yang (2009). "Under the Weather: Health, Schooling, and Economic Consequences of Early-Life Rainfall," *American Economic Review*, 99(3), p. 1006-1026.

Mace, Barbara J. (1991). "Full Insurance in the Presence of Aggregate Uncertainty," *Journal of Political Economy*, 99(5), p. 928-56.

Miguel, Edward (2005). "Poverty and Witch Killing," *Review of Economic Studies*, 72(4), p. 1153-1172.

Miguel, Edward, Shanker Satyanath and Ernest Sergenti (2006). "Economic Shocks and Civil Conflict: An Instrumental Variables Approach," *Journal of Political Economy*, 112(4), 725-753.

- Morduch, Jonathan (1994). "Poverty and Vulnerability," *American Economic Review*, 84(2), p. 221-225.
- Morduch, Jonathan (1999). "Between the State and the Market: Can Informal Insurance Patch the Safety Net?" *World Bank Research Observer*, 14 (2), p 187-207.
- Rosenzweig, Mark R. (1988b). "Risk, Implicit Contracts and the Family in Rural Areas of Low-Income Countries," *Economic Journal*, 98, p. 1148-1170.
- Townsend, Robert M. (1994). "Risk and Insurance in Village India," *Econometrica*, 62(3), p. 539-91.

Session 4. (Tuesday Sep. 18). Moral Hazard and Adverse Selection II: Savings

- Ashraf, Nava, Dean Karlan and Wesley Yin (2006). "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines," *Quarterly Journal of Economics*, 121(2), p. 635-672.
- Paxson, Christina H. (1992). "Using Weather Variability to Estimate the Response of Savings to Transitory Income in Thailand," *American Economic Review*, 82(1), p. 15-33.
- Rosenzweig, Mark R. and Kenneth I. Wolpin (1993). "Credit Market Constraints, Consumption Smoothing and the Accumulation of Durable Assets in Low-Income Countries: Investment in Bullocks in India," *Journal of Political Economy*, 101(2), p 223-244.
- Fafchamps, Marcel, Christopher Udry and Katherine Czukas (1998). "Drought and Saving in West Africa: Are Livestock a Buffer Stock?" *Journal of Development Economics*, 55, p. 273-305.

DUE: **PROBLEM SET 1, DUE IN-CLASS**
ASSIGNMENT: **PROBLEM SET 2**

Session 5. (Thursday Sep. 20). Asymmetric Information, Limited Enforcement I: Credit I

- Burgess, Robin and Rohini Pande (2005). "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment," *American Economic Review*, 95(3), p. 780-795.
- Coleman, Brett E. (1999). "The impact of group lending in Northeast Thailand," *Journal of Development Economics*, 60, p. 105-142.
- Cull, Robert, Asli Demirguc-Kunt and Jonathan Morduch (2009). "Microfinance Meets the Market," *Journal of Economic Perspectives*, 23(1), p. 167-192.
- Jonathan Morduch (1999). "The Microfinance Promise," *Journal of Economic Literature*, 37(4), p. 1569-1614.
- Morduch, Jonathan (2000). "The Microfinance Schism," *World Development* 28 (4).

Session 6. (Tuesday Sep. 25). Asymmetric Information, Limited Enforcement II: Credit II

- Banerjee, Abhijit, Esther Duflo, Rachel Glennerster and Cynthia Kinnan (2011). "The Miracle of Microfinance? Evidence from a Randomized Evaluation," mimeo MIT.
- Crepon, Bruno, Florencia Devoto, Esther Duflo and William Pariente (2011). "Impact of Microcredit in Rural Areas of Morocco: Evidence from a Randomized Evaluation," mimeo MIT.

DUE: **PROBLEM SET 2, DUE IN-CLASS**

II. PRODUCERS AND PRODUCTION IN THE GLOBAL ECONOMY

Session 7. (Thursday Sep. 27). Producer Theory and Production

- Hsieh, Chang-Tai and Peter J. Klenow (2009), "Misallocation and Manufacturing TFP in China and India," *Quarterly Journal of Economics*, 124 (4), p. 1403-1448.
- and -- (2012). "The Life Cycle of Plants in India and Mexico," NBER Working Paper 18133.
- Bloom, Nicholas, Aprajit Mahajan, David McKenzie and John Roberts (2010). "Why Do Firms in Developing Countries Have Low Productivity?" *American Economic Review*, 100(2), p. 619-623.
- Tybout, James R. (2000). "Manufacturing Firms in Developing Countries: How Well Do They Do, and Why?" *Journal of Economic Literature*, 38(1), p. 11-44.
- IFC and World Bank (2011). Doing Business 2011: Making a Difference for Entrepreneurs. World Bank: Washington D.C. doi: 10.1596/978-0-8213-7960-8
- Schwab, Klaus (2011). The Global Competitiveness Report, 2010-2011. World Economic Forum: Geneva Switzerland.

Session 8. (Tuesday Oct. 2). Access to Capital

- de Mel, Suresh, David McKenzie and Christopher Woodruff (2011). "Getting Credit to High Return Microentrepreneurs: The Results of an Information Intervention," *World Bank Economic Review*, 25(3), p. 456-85.
- de Mel, Suresh, David McKenzie and Christopher Woodruff (2009). "Are Women More Credit Constrained? Experimental Evidence on Gender and Microenterprise Returns," *American Economic Journal: Applied Economics*, 1(3), p. 1-32.
- de Mel, Suresh, David McKenzie and Christopher Woodruff (2008). "Returns to Capital in Microenterprises: Evidence from a Field Experiment," *Quarterly Journal of Economics*, 123(4), p. 1329-72.
- Khwaja, Asim Ijaz and Atif Mian (2005). "Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market," *Quarterly Journal of Economics*, 120(4): 1371-1411.

Session 9. (Thursday Oct. 4). Public Goods: Infrastructure

- Duflo, Esther and Rohini Pande (2007). "Dams," *Quarterly Journal of Economics*, 122 (2), p. 601-646.
- Dinkleman, Taryn. "The Effects of Rural Electrification on Employment: New Evidence from South Africa." *American Economic Review*, (7), p.3078-3108.
- Gonzalez-Navarro, Macro and Climent Quintana-Domeque (2010). "Roads to Development: Experimental Evidence from Urban Road Pavement," BREAD Working Paper No. 280.
- Jensen, Robert T. (2007). "The Digital Divide: Information (Technology), Market Performance and Welfare in the South Indian Fisheries Sector," *Quarterly Journal of Economics*, 122(3), p. 879 – 924.
- Jensen, Robert T. (2010). "Information, Efficiency and Welfare in Agricultural Markets," *Agricultural Economics*, 41(S1), p. 203-216.
- Olken, Ben and Monica Singhal (2011). "Informal Taxation," *American Economic Journal: Applied Economics*, 3(4), p. 1-28.

Session 10. (Tuesday Oct. 9). Labor Force and Externalities: Human Capital

- Duflo, Esther (2001). "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment." *American Economic Review*, 91(4), p. 795–813.
- Jensen, Robert (2010). "The (Perceived) Returns to Education and the Demand for Schooling," *Quarterly Journal of Economics*, 125(2), p. 515-548.
- Jensen, Robert (2012). "Do Labor Market Opportunities Affect Young Women's Work and Family Decisions? Experimental Evidence from India," *Quarterly Journal of Economics*, 127(2), p. 753-792.
- Schultz, T. Paul (2004). "School subsidies for the poor: evaluating the Mexican Progresa poverty program," *Journal of Development Economics*, 74(1), p.199-250.

Session 11. (Thursday Oct. 11). Synthesis/Review

Session 12. (Tuesday Oct. 16). FIRST EXAM covering content from Sessions 1-11

Session 13. (Thursday Oct. 18). Agency Problems, Contract Enforcement I

- Greif, Avner (1993). "Contract Enforceability and Economic Institution in Early Trade: The Maghribi Traders Coalition," *American Economic Review*, 83(3), p. 525-548.
- Banerjee, Abhijit V. and Lakshmi Iyer (2005). "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review*, 95(4), p. 1190-1213.
- Banerjee, Abhijit V. and Esther Duflo (2000). "Reputation Effects and the Limits of Contracting: A Study of the Indian Software Industry," *Quarterly Journal of Economics*, 115(3), p. 989-1017.

(Tuesday Oct. 23). Fall Break

Session 14. (Thursday Oct. 25). Corruption I

- Olken, Ben and Rohini Pande (2012). "Corruption in Developing Countries," Annual Review of Economics.
- Svensson, Jakob (2003). "Who Must Pay Bribes and How Much? Evidence from a Cross Section of Firms," *Quarterly Journal of Economics* (2003) 118(1): 207-230
- Bertrand, Marianne, Simeon Djankov, Rema Hanna and Sendhil Mullainathan (2007). "Obtaining a Driving License in India: An Experimental Approach to Studying Corruption," *Quarterly Journal of Economics*, 122 (4), p. 1639-1676.
- Olken, B. (2007). "Monitoring Corruption: Evidence from a Field Experiment in Indonesia." *Journal of Political Economy*, 115: 200-249.
- Olken, B. and Barron, P. (2009). "The Simple Economics of Extortion: Evidence from Trucking in Aceh." *Journal of Political Economy*, 117(3): 417-452.

Session 15. (Tuesday Oct. 30). Corruption II

- Fisman, Raymond, and Shang-Jin Wei (2004). "Tax Rates and Tax Evasion: Evidence from 'Missing Imports' in China." *Journal of Political Economy*, 112(2), p. 471-496.
- Mobarak, Mushfiq and Denni Pupsa Purbasari (2011). "Protection For Sale to Firms: Evidence From Indonesia" mimeo, Yale University.

ASSIGNMENT: PROBLEM SET 3

Session 16. (Thursday Nov. 1). Institutions

- Acemoglu, Daron, Simon Johnson, and James Robinson (2001). "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5), p. 1369-1401.
- Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi. "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development." *Journal of Economic Growth*, 9(2), p. 131-165.
- McMillan, John, and Christopher Woodruff (1999). "Interfirm Relationships and Informal Credit in Vietnam." *Quarterly Journal of Economics*, 114(4), p. 1285-1320.
- Raymond J. Fisman (2003). "Ethnic Ties and the Provision of Credit," *Advances in Economic Analysis and Policy* 3(1).
- Fafchamps, Marcel (2000). "Ethnicity and Credit in African Manufacturing," *Journal of Development Economics*, 61, p. 205-235.

Session 17. (Tuesday Nov. 6). Property Rights

- Field, Erica (2005). "Property Rights and Investment in Urban Slums." *Journal of the European Economic Association Papers and Proceedings*, 3(2-3), p. 279-290.

Session 18. (Thursday Nov. 8). Regulation, Registration and Formalization

- de Mel, Suresh, David McKenzie and Christopher Woodruff (2012). "The Demand for, and Consequences of, Formalization Among Informal Firms in Sri Lanka," *American Economic Journal: Applied Economics*.

DUE: PROBLEM SET 3, DUE IN-CLASS

Session 19. (Tuesday Nov. 13). Labor Regulation

- Besley Timothy and Robin Burgess (2004). "Can Labor Regulation Hinder Economic Performance? Evidence from India," *Quarterly Journal of Economics*, 119(1), p. 91-134.

III. MARKET FAILURES AND REGULATORY DESIGN: APPLICATIONS

Session 20. (Thursday Nov. 15). Public Goods

Reading to be determined by presenting teams

Session 21. (Tuesday Nov. 20). Externalities

Reading to be determined by presenting teams

(Thursday Nov. 22). No Class -- Thanksgiving

Session 22. (Tuesday Nov. 27). Market Power

Readings to be determined by presenting teams

Session 23. (Thursday Nov. 29). Asymmetric Information

Readings to be determined by presenting teams

Session 24. (Tuesday Dec. 4). Synthesis

Session 25. (Thursday Dec. 6). **SECOND EXAM covering content from Sessions 13-24**