

University of Pennsylvania
The Wharton School

BEPP 233X
Spring 2014

CONSUMERS, FIRMS AND MARKETS IN DEVELOPING COUNTRIES

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Time:

Office Hours:

Teaching Assistants:

Description: Nearly four-fifths of the world's population lives in low income or developing countries. Though currently far behind the U.S., the 15 fastest growing economies/markets in the world are all developing countries. And developing countries already account for 6 of the world's 15 largest economies. This course will examine economic life, including consumers, firms and markets, in low income countries. We will apply both economic theory and empirical analysis for analyzing the roles of both business and government in consumption, production and market equilibria.

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 1-12)	30%
1 st Problem Set	10%
2 nd Problem Set	5%
3 rd Problem Set	5%
Team Presentations	20%
Second Exam (Sessions 13-24)	30%

Exams: Both exams will be closed book. The first exam will focus on the economic concepts and applications from Sessions 1-12 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 just after the midterm, 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 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 (F35 JMHH), 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. Consumers in Developing Countries

- Banerjee, Abhijit V., and Esther Duflo. 2007. "The Economic Lives of the Poor." *Journal of Economic Perspectives*, 21(1), p. 141–168.
- Ravallion, Martin (1992). "Poverty Comparisons: A Guide to Concepts and Methods," [LSMS Working Paper #88](#), The World Bank, Washington, D.C., p. 1-24.

ASSIGNMENT: **PROBLEM SET 1**

Session 2. Consumption and Poverty

- Ravallion, Martin (1992). "Poverty Comparisons: A Guide to Concepts and Methods," [LSMS Working Paper #88](#), The World Bank, Washington, D.C., p. 34-48.
- Ravallion, Martin (1998). "Poverty Lines in Theory and Practice," [LSMS Working Paper #133](#), The World Bank, Washington, D.C.

Session 3. Understanding the Household as an Economic Decision-Making Unit

- 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.
- 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.

Session 4. Risk, Volatility and Consumption Smoothing

- Morduch, Jonathan (1994). "Poverty and Vulnerability," *American Economic Review*, 84(2), p. 221-225.
- Rosenzweig, Mark R. (1988b). "Risk, Implicit Contracts and the Family in Rural Areas of Low Income Countries," *Economic Journal*, 98, p. 1148-1170.

Session 5. The Market for Insurance

- Cochrane, John H. (1991). "A Simple Test of Consumption Insurance," *Journal of Political Economy*, 99(5), p. 893-920.
- Mace, Barbara J. (1991). "Full Insurance in the Presence of Aggregate Uncertainty," *Journal of Political Economy*, 99(5), p. 928-56.
- Mobarak, Ahmed Mushfiq and M. Rosenzweig (2013). "Selling Formal Insurance to the Informally Insured," mimeo, Yale University.
- Mobarak, Ahmed Mushfiq and M. Rosenzweig (2013). "Informal Risk Sharing, Index Insurance, and Risk-Taking in Developing Countries," *American Economic Review*, 103(3), p. 375-380.
- 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.
- Townsend, Robert M. (1994). "Risk and Insurance in Village India," *Econometrica*, 62(3), p. 539-91.

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

Session 6. Savings Behavior and the Demand for Financial Products

- 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.

Session 7. Demand for and Access to Credit Markets

- 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.
- Karlan, Dean, Robert Osei and Isaac Osei-Akoto and Chris Udry (2013). "[Agricultural Decisions after Relaxing Credit and Risk Constraints](#)," mimeo, Yale University.

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

II. FIRMS AND PRODUCTION IN THE DEVELOPING WORLD

Session 8. Producer Theory and Firms

- 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.
- Jensen, Robert T. (2013). "Market Size and the Growth of Firms: Evidence from a Natural Experiment in India," mimeo.
- 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 9. 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*.

Session 10. Production and 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 11. 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 12. FIRST EXAM covering content from Sessions 1-11

Session 13. 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.

Session 15. Productivity, Human Capital and the Labor Force I

- Strauss, John (1986). "Does Better Nutrition Raise Farm Productivity?" *Journal of Political Economy*, pp. 297-320.
- Deaton, Angus (1997). *The Analysis of Household Surveys*, p. 204-222.
- Behrman, Jere R and Anil B. Deolalikar (1987). "Will Developing Country Nutrition Improve with Income? A Case Study for Rural South India," *Journal of Political Economy*, 95(3), p. 492-507.
- Thomas, Duncan and John Strauss (1998). "Health, Nutrition and Economic Development," *Journal of Economic Literature*.
- Subramanian, Shankar and Angus Deaton (1996). "The Demand for Food and Calories," *Journal of Political Economy*, 104(1), p. 133-62.
- Jensen, Robert T. and Nolan Miller (2011). "Do Consumer Price Subsidies Really Improve Nutrition?" *Review of Economics and Statistics*.
- Jensen, Robert T. and Nolan Miller (2008). "Giffen Behavior and Subsistence Consumption," *American Economic Review*, 98(4), p. 1553 – 1577.

Session 14. Productivity, Human Capital and the Labor Force II

- 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.

ASSIGNMENT: PROBLEM SET 3

Session 16. Human Capital, Productivity and the Labor Force III

- Schultz, T. Paul. (1985). "Changing World Prices, Women's Wages and the Fertility Transition: Sweden, 1860-1910." *Journal of Political Economy*, 93(6), p. 1126-1154.
- Pritchett, Lant (1994). "Desired Fertility and the Impact of Population Policies," *Population and Development Review*, 20(1), p. 1-42.
- 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.

Session 17. 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.

Session 18. Gender, Production and Consumption

- Udry, Christopher (1996). "Gender, Agricultural Production, and the Theory of the Household," *Journal of Political Economy*, 104(5), p. 1010-1046.
- Dasgupta, Monica (1987). "Selective Discrimination Against Female Children in Rural Punjab, India," *Population and Development Review*, 13, p. 77-100.
- Sen, Amartya (1990). "More than 100 Million Women are Missing," *New York Review of Books*, December 20.
- Sen, Amartya (1992). "Missing Women," *British Medical Journal*, 304, 587-588.
- Deaton, Angus (1989). "Looking for Boy-Girl Discrimination in Household Expenditure Data," *World Bank Economic Review*, p. 1-15.
- Jensen, Robert T. and Emily Oster (2009). "The Power of TV: Cable Television and Women's Status in India," *Quarterly Journal of Economics*, 124(3), p. 1057-1094.
- Holla, Alaka, Robert T. Jensen and Emily Oster (2007). "Daughters as Wealth? Financial Incentives and Sex Ratios," mimeo, John F. Kennedy School of Government, Harvard University, Cambridge, MA.
- Jensen, Robert (2001). "Fertility Preferences and Female Disadvantage: Equal Treatment, Unequal Outcomes?" mimeo, John F. Kennedy School of Government, Harvard University.

Session 19. Institutions and Economic Growth I

- 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 20. Institutions and Economic Growth II

- Alesina, Alberto and Dani Rodrik. "Distributive Politics and Economic Growth," *Quarterly Journal of Economics*, 109(2), p. 465-490.
- Barro, Robert J. (2000). "Inequality and Growth in a Panel of Countries," *Journal of Economic Growth*, 5(1), p. 5-32.
- Deaton, Angus (2003). "Health, Inequality and Economic Development," *Journal of Economic Literature*, 41(1), p. 113-158.
- Deaton, Angus (1999). "Inequalities in Income and Inequalities in Health," NBER Working Paper No. 7141.
- Forbes, Kristin (2000). "A Reassessment of the Relationship Between Inequality and Growth," *American Economic Review*, 90(4), p. 869-887.
- Sapolsky, Robert M. (2005). "The Influence of Social Hierarchy on Primate Health," *Science* 29, Vol. 308 no. 5722 pp. 648-652 DOI: 10.1126/science.1106477

DUE: PROBLEM SET 3, DUE IN-CLASS

Session 21. Program Targeting

- Besley, Timothy and Ravi Kanbur (1993). "The Principles of Targeting," in Michael Lipton and Jacques van der Gaag, eds., Including the Poor, The World Bank, Chapter 3, p. 67-82.
- Grosh, Margaret (1994). Administering Targeted Social Programs in Latin America, World Bank, Washington, D.C., p. 7-26.
- Coady, David, Margaret E. Grosh and John Hoddinott. Targeting of transfers in developing countries, p. 5-17.

Session 22. Behavioral Responses to Public Policy

- Barro, Robert J. (1974). "Are Government Bonds Net Wealth?" *Journal of Political Economy* 82, p. 1095-1117.
- Eissa, Nada and Jeffrey B. Liebman (1995). "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics*, 111(2), p. 605-637.

Jensen, Robert T. (2003). "Do Private Transfers 'Displace' the Benefits of Public Transfers? Evidence from South Africa" *Journal of Public Economics*, 88, p. 89 – 112. Cox, Donald and Emmanuel Jimenez (1990). "Social Security and Private Transfers in Developing Countries: The Case of Peru," *World Bank Economic Review*, 6(1), p. 155-169.

Sahn, David E. and Harold Alderman (1996). "The Effect of Food Subsidies on Labor Supply in Sri Lanka," *Economic Development and Cultural Change*, p. 125-145.

Moffitt, Robert (1987). "Incentive Effects of the U.S. Welfare System: A Review", *Journal of Economic Literature*, 30(1), p. 27-33.

Session 23. Student Presentations I

Readings to be determined by presenting teams

Session 24. Student Presentations II

Readings to be determined by presenting teams

Session 25. SECOND EXAM covering content from Sessions 13-24