

Topics in Applied Microeconomics

Course Description: The first part of the course is devoted to the Political Economy of Development (weeks 1-5). It focuses on the understanding of how institutions shape politico-economic outcomes, with a focus on development and historical political economy. Here the central questions are: (1) Why are some countries so much poorer than others? (2) What are the main barriers to the process of economic development? (3) Why do these barriers exist and persist? To answer them, we examine the role of institutions and political factors as determinants of underdevelopment. As such, we are going to cover topics of political economy, development, historical political economy and political economy of education.

The second part of the course (weeks 6-10) is devoted to the Economics of Education, including both developing and developed countries. It will dwell on global long-term trends and inequality in education attainment, the impact of non-cognitive abilities, and the role of firms in training.

The purpose of the course is to give you a sense of the frontier research topics and a good command of the methodologies used in these fields. The main emphasis will be on empirical and microeconomic studies, although some applied theory papers will also be discussed.

Class meetings: Tuesday 9:30-11:00, Thursday 15:00-16:30 and 17:00-18:30

Office hours: By appointment.

Instructors: Political Economy: Agustín Casas (acasas@cunef.edu). Education: Samuel Bentolila (bentolila@cemfi.es).

Previous knowledge: Students are assumed to be familiar with the basic concepts of econometrics, microeconomics, and macroeconomics. Some of the assignments will require the use of Stata. A Stata tutorial is available on the Intranet. This tutorial covers a few basic commands frequently used in Stata. If you still find it difficult to work with Stata, you should talk to the Professors or the Teaching Assistant.

Teaching assistant: The teaching assistant for this course is Guillermo Martínez (guillermo.martinez@cemfi.edu.es). He will discuss assignment solutions during the second half of Thursday's class on weeks when assignments are due.

Grading weights: Examination 70%, homework 15%, presentations 15%. The exam will take place during the exam week.

Assignments: There will be four assignments of two types. Two of them will be problem sets that will require reading a paper in detail, answering questions about it, and replicating the empirical exercise in the paper. The other two assignments will consist of making short presentations where, starting from one paper in the reading list, the student will explain an own idea of a research project, indicating the required data and the identification strategy.

Students will work in teams of two and hand in a common set of answers. The group submission of the first assignment will define the teams for the rest of the term. Assignments are a central part of the course and provide fundamental training for the exam. You should devote a substantial amount of time and effort to work on them.

Submission Deadlines and Instructions: Regular problem sets are due at 9:00 on the day the assignment will be discussed in the TA session. The slides for the presentation assignments are due 24 hours before the corresponding class. Please submit PDFs with your answers to the assignments through Moodle. On weeks when the assignments are due, the second half of Thursday's session will be typically devoted to discussing them.

Participation: Students are expected to participate in class by asking questions and to contribute to the discussion during the assignment sessions. Attendance to all lectures is mandatory and will be a key component in the participation grade.

Readings: The reading list is intentionally long to give you an opportunity to dig deeper into the topics you find most interesting. Readings marked by *** are required, those by ** are strongly recommended, and those by * are recommended.

Course Material: All the readings, slides, assignments, etc. will be uploaded to Moodle throughout the course. The only exception is slides of assignment sessions, which will not be made available. Please, do not share the course content with other people.

Topics and Schedule (the numbers refer also to the weeks in the term)

1. Global Trends in Growth, Inequality and Poverty
2. Institutions
3. Politicians
4. Accountability
5. Political Economy of Education
6. Global Trends in Education Attainment
7. Inequality in Education
8. Developing Countries
9. Non-cognitive Abilities
10. Training and Firms

Books: There is no textbook for this course. However, several chapters of the book by Daron Acemoglu (2009), Introduction to Modern Economic Growth. Princeton University Press, indicated below as DA, are strongly recommended.

Readings by Topic

1. Global Trends in Growth, Inequality and Poverty

Trends in Growth, Inequality and Poverty

** DA, Chapter 1, 3-21, and 90-96.

** Sala-i-Martin, Xavier (2006), "The World Distribution of Income: Falling Poverty and... Convergence, Period", *Quarterly Journal of Economics* 121 (2), 351-397.

** Chen, Shaohua and Martin Ravallion (2010), "The Developing World is Poorer than we Thought, but no Less Successful in the Fight Against Poverty", *Quarterly Journal of Economics* 125 (4), 1577-1625.

* Chen Shaohua and Martin Ravallion. 2012. "More Relatively-Poor People in a Less Absolutely-Poor World", *Policy Research Working Paper* 6114, World Bank.

* Lakner, Christoph and Branko Milanovic. 2016. "Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession", *World Bank Econ Review* 30 (2), 203-232.

* Piketty, Thomas, Emmanuel Saez and Gabriel Zucman 2018. "Distributional National Accounts: Methods and Estimates for the United States", *Quarterly Journal of Economics* 133 (2), 2018, 553-609.

The Economic Lives of the Poor

* Banerjee, Abhijit V. and Esther Duflo (2011), *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. Public Affairs, Ch. 10. "Politics, Policies".

** Banerjee, Abhijit, and Esther Duflo (2006), "Economic Lives of the Poor", *Journal of Economic Perspectives* 21 (1), 141-167.

** Banerjee, Abhijit, and Esther Duflo (2008), "What is Middle Class About the Middle Classes Around the World?", *Journal of Economic Perspectives* 22 (4), 3-28.

* Banerjee, Abhijit V. and Esther Duflo (2005), "Growth Theory Through the Lens of Development", In *Handbook of Economic Growth*, edited by Phillipe Aghion and Steven Durlauf. Elsevier, Sections 1, 3, and 4.

* Schilbach, Frank, Heather Schofield, and Sendhil Mullainathan. 2016. "The Psychological Lives of the Poor", *American Economic Review*, 106 (5), 435-40.

* Michael Kremer, Gautam Rao, Frank Schilbach. 2019 "Behavioral development economics" in *Handbook of Behavioral Economics: Applications and Foundations* (vol. 2), edited by B. Douglas Bernheim, Stefano DellaVigna and David Laibson, Elsevier.

2. Institutions

General Issues / Theory

* DA, Chapter 4, 109-143.

* Acemoglu, Daron (2005), Institutions as a Fundamental Cause of Long-run Growth. In Handbook of Economic Growth, edited by Phillipe Aghion and Steven Durlauf. Elsevier. Sections 1, 3, 5, and 6.

** Acemoglu, Daron and James Robinson (2012), Why Nations Fail: The Origins of Power, Prosperity and Poverty, Crown Publishers. Preface and Chapter 1.

* Acemoglu, Daron (2003), "Why Not a Political Coase Theorem?", Journal of Comparative Economics 31, 620-652.

Empirical Evidence: Macro

** Acemoglu, Daron, Simon Johnson and James Robinson (2002), "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution", Quarterly Journal of Economics 107, 1231-1294.

** Jones, Benjamin F. and Benjamin A. Olken (2005), "Do Leaders Matter? National Leadership and Growth Since World War II", Quarterly Journal of Economics 120, 835-864.

* Persson, Torsten and Guido Tabellini (2003), The Economic Effects of Constitutions: What Do the Data Say?, MIT Press.

** Acemoglu, Daron (2005), "Constitutions, Politics and Economic Growth: Review Essay on Persson and Tabellini's The Economic Effects of Constitutions", Journal of Economic Literature 43, 1025-1048.

Empirical Evidence: Micro

* Pande, Rohini and Christopher Udry (2005), "Institutions and Development: A View from Below", Proceedings of the 9th World Congress of the Econometric Society, edited by Richard Blundell, W. Newey, and Torsten Persson.

** Udry, Christopher and Markus Goldstein (2008), "The Profits of Power: Land Rights and Agricultural Investment in Ghana", Journal of Political Economy 116 (3).

* Nunn, Nathan (2008), "The Long Term Effects of Africa's Slave Trades", Quarterly Journal of Economics 123 (1), 139-176.

*** Dell, Melissa (2010), "The Persistent Effects of Peru's Mining Mita", Econometrica 78 (6), 1863-1903.

Acemoglu, Daron, Simon Johnson and James A. Robinson (2003), "An African Success Story: Botswana". In In Search of Prosperity, edited by Dani Rodrick, Princeton University Press.

3. Politicians

Distributive politics

** Alberto Alesina, Dani Rodrik (1994), "Distributive Politics and Economic Growth", *Quarterly Journal of Economics* 109 (2), 465-490.

*** Stromberg, David (2008), "How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida", *American Economic Review*, 98 (3), 769-807.

*** Dixit, Avinash, and John Londregan (1995), "Redistributive Politics Efficiency", *American Political Science Review* 89 (4), 856-66.

* Casey, Katherine (2015), "Crossing Party Lines: The Effects of Information on Redistributive Politics", *American Economic Review* 105 (8), 2410-48.

** Finan, Frederico and Laura Schechter (2012), "Vote-Buying and Reciprocity" *Econometrica* 80 (2), 863-882.

** Maskin, Eric and Jean Tirole (2004), "The Politician and the Judge: Accountability in Government". *American Economic Review* 94(4) 1034-1054.

Corruption

* Olken, Benjamin and Rohini Pande (2012), "Corruption in Developing Countries", *Annual Review of Economics* 4, 479-505.

Banerjee, Abhijit, Rema Hanna, and Sendhil Mullainathan (2013), "Corruption" *Handbook of Organizational Economics*, edited by Robert Gibbons and John Roberts, Princeton University Press.

Provision of Public Services

* Martinez-Bravo, Monica (2017), "The Local Political Economy Effects of School Construction in Indonesia", *American Economic Journal: Applied Economics* 9 (2), 256-289.

* Ferraz, Claudio and Frederico Finan (2011), "Electoral Accountability and Corruption in Local Government: Evidence From Audit Reports", *American Economic Review* 101 (4), 1274-1311.

4. Accountability

*** Martinez-Bravo, Monica, Priya Mukherjee, Andreas Stegmann (2017), "The NonDemocratic Roots of Elite-Capture: Evidence from Soeharto Mayors in Indonesia" *Econometrica* 85(6), 1991-2010.

*** Martinez-Bravo, Monica, Gerard Padró-i-Miquel, Nancy Qian, and Yang Yao (2022), "The Rise and Fall of Local Elections in China", *American Economic Review* 112 (9), 2921-2958.

* Ferraz, Claudio and Frederico Finan (2008), "Exposing Corrupt Politicians: The Effects of Brazil's Publicly Released Audits and Electoral Outcomes", *Quarterly Journal of Economics* 123 (2), 703-745.

** Banerjee, Abhijit, Selvan Kumar, Rohini Pande, and Felix Su, "Do Informed Voters Make Better Choices? Experimental Evidence from Urban India", mimeo, Harvard.

** Fujiwara, Thomas (2015), "Voting Technology, Political Responsiveness and Infant Health: Evidence from Brazil", *Econometrica* 83 (2), 423-464.

* Agustín Casas, Guillermo Díaz, André Trindade (2016), "Who monitors the monitor? Effect of party observers on electoral outcomes", *Journal of Public Economics* 145, 136-149.

5. Political Economy of Education

*** Paglayan, Agustina (2022), "The Historical Political Economy of Education". In *Oxford Handbook of Historical Political Economy*, edited by Jeffery Jenkins and Jared Rubin. Oxford University Press.

Paglayan, Agustina (2022), "Education or Indoctrination? The Violent Origins of Public School Systems in an Era of State-Building". *American Political Science Review* 116 (4), 1242-1257.

Paglayan, Agustina (2021), "The Non-Democratic Roots of Mass Education: Evidence from 200 Years". *American Political Science Review* 115 (1), 179-198.

6. Global Trends in Education Attainment

* Organisation for Economic Cooperation and Development (2024), *Education at a Glance 2024*, Paris.

Our World in Data: Global Education, <https://ourworldindata.org/global-education>

World Bank, *Education Attainment and Enrollment Around the World (EdAttain)*, <https://www.worldbank.org/en/data/interactive/2021/05/31/education-attainment-and-enrollment-around-the-world>

7. Inequality in Education

** Blanden, Jo, Matthias Doepke, and Jan Stuhler (2023), "Educational Inequality". In *Handbook of the Economics of Education* (vol. 6), edited by Eric A. Hanushek, Stephen Machin, and Ludger Woessmann. Elsevier.

* Blanden, Jo (2013), "Cross-country Rankings in Intergenerational Mobility: A Comparison of Approaches from Economics and Sociology", *Journal of Economic Surveys* 27 (1), 38-73.

** Cunha, Flavio, James J. Heckman, and Susanne Schennach (2010), "Estimating the Technology of Cognitive and Noncognitive Skill Formation". *Econometrica* 78 (3), 883-93.

* Doepke, Matthias and Fabrizio Zilibotti (2017), "Parenting with Style: Altruism and Paternalism in Intergenerational Preference Transmission". *Econometrica* 85 (5), 1331-1371.

* Lindahl, Mikael, Marten Palme, Sofia S. Massih, and Anna Sjögren (2015). "Long-term Intergenerational Persistence of Human Capital: An Empirical Analysis of Four Generations". *Journal of Human Resources* 50 (1), 1-33.

8. Developing Countries

Estimating Returns to Investment in Education

** Banerjee, Abhijit V. and Esther Duflo (2011), *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. Public Affairs, Ch. 4. "Top of the Class".

Banerjee, Abhijit V. and Esther Duflo (2005), "Growth Theory Through the Lens of Development". In *Handbook of Economic Growth*, edited by Philippe Aghion and Steven Durlauf, Elsevier. Section 2.

Griliches, Zvi (1977). "Estimating the Returns to Schooling: Some Econometric Problems". *Econometrica* 45 (1), 1-22.

Psacharopoulos, George and Harry A. Patrinos (2004), "Returns to Investment in Education: A Further Update". *Education Economics* 12 (2), 111-134.

The Role of Perceptions of Returns to Schooling on Demand for Education

** Dizon-Ross, Rebecca (2019), "Parents' Beliefs about Their Children's Academic Ability: Implications for Educational Investments". *American Economic Review* 109 (8), 2728-65.

Jensen, Robert (2010), "The Perceived Return to Education and the Demand for Schooling", *Quarterly Journal of Economics* 125 (2), 515-548.

Externalities & Effects of Education on Technology Adoption

Duflo, Esther (2004), "The Medium Run Effects of Educational Expansion: Evidence from a Large School Construction Program in Indonesia". *Journal of Development Economics* 74, 163-197.

Foster, Andrew, and Mark R. Rosenzweig (1996), "Technical Change and Human-Capital Returns and Investments: Evidence from the Green Revolution", *American Economic Review* 84(4), 931-953.

Rosenzweig, Mark R. (2010), "Microeconomic Approaches to Development: Schooling, Learning, and Growth", *Journal of Economic Perspectives* 24(3), 17- 32.

Provision of Education in Developing Countries

Banerjee, Abhijit and Esther Duflo (2006), "Addressing Absence", *Journal of Economic Perspectives* 20 (1), 117-132.

**** Duflo, Esther, Rema Hanna and Stephen Ryan (2012), “Incentives Work: Getting Teachers to Come to School”, American Economic Review, 104 (4), 1241-1278.**

Duflo, Esther, Pascaline Dupas and Michael Kremer (2011), “Peer Effects and the Impacts of Tracking: Evidence from a Randomized Evaluation in Kenya”, American Economic Review 101 (5), 1739-74.

Kremer, Michael and Alaka Holla (2009), “Improving Education in the Developing World: What Have We Learned from Randomized Evaluations?”, Annual Review of Economics 1, 513-545.

9. Non-cognitive Abilities

**** Almlund, Mathilde, Angela L. Duckworth, James J. Heckman, and Tim Kautz (2011), “Personality Psychology and Economics”. In Handbook of the Economics of Education (vol. 4), edited by Eric A. Hanushek, Stephen Machin, and Ludger Woessmann. Elsevier.**

***** Cunha, Flavio, James J. Heckman, and Susanne Schennach (2010), “Estimating the technology of cognitive and noncognitive skill formation”. Econometrica 78 (3), 883-93.**

**** Deming, David J. (2017), “The Growing Importance of Social Skills In The Labor Market”, Quarterly Journal of Economics 132 (4), 1593-1640.**

*** Heckman, James J., Jora Stixrud, and Sergio Urzua (2006), “The Effects of Cognitive and Noncognitive Abilities on Labor Market Outcomes and Social Behavior”. Journal of Labor Economics 24 (3), 411-482.**

Sacerdote, Bruce (2011). “Peer Effects in Education: How Might They Work, How Big Are They and How Much Do We Know Thus Far?”. In Handbook of the Economics of Education (vol. 3), edited by Eric A. Hanushek, Stephen Machin, and Ludger Woessmann. Elsevier.

10. Training and Firms

***** Acemoglu, Daron and Jorn S. Pischke (1998), “Why do firms train? Theory and evidence”, Quarterly Journal of Economics 113, 79-119.**

Becker, Gary (1962), “Investment in human capital: a theoretical analysis”. Journal of Political Economy 70, 9-49.

*** Bentolila, Samuel, Antonio Cabrales, and Marcel Jansen (2023), “Does Dual Vocational Education Pay Off?”, CEMFI (manuscript).**

**** Black, Dan, Lars Skipper, and Jeffrey A. Smith (2023), “Firm Training”. In Handbook of the Economics of Education (vol. 7), edited by Eric A. Hanushek, Stephen Machin, and Ludger Woessmann. Elsevier.**

Wolter, Stefan and Paul Ryan (2011), “Apprenticeship”. In Handbook of the Economics of Education (vol. 3), edited by Eric A. Hanushek, Stephen Machin, and Ludger Woessmann. Elsevier.