

Economics 504: Public Economics in Developing Countries

Fall 2018

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Office hours:
Tues. 1:30-3:50PM,
and by appointment
Class meets 11am-12:15pm MWF,
Greylock C

Course description

Public economics (also known as “public finance”) is the branch of economics concerned with government expenditure and taxation, focusing primarily on microeconomic aspects of these activities. In this class, we will mainly consider the expenditure side of public economics. An in-depth exploration of tax policy, the other half of public economics, is offered in Econ 514 in the spring semester. Because it is a CDE course, Econ 504 is tailored to the interests of policymakers and policy analysts from developing and transition economies. It applies the tools of public economics to the microeconomic policy problems that are most pertinent in these countries, and includes much coverage of the institutional details of policies and empirical evidence in these types of countries. Econ 504 is a survey course providing brief introductions to many different microeconomic concepts and public policy issues that we think it is important for every CDE fellow to understand. Spring elective courses at the CDE provide you with the opportunity to investigate some of these particular issues in greater depth.

This semester’s course begins by laying out a general empirical and theoretical framework for analyzing public economics issues. One of my aims for this course is to integrate empirical evidence and theory right from the beginning, so we start by considering strategies we can use to get relatively convincing evidence on the degree to which policies achieve their goals. We then turn to fundamental normative questions such as: what should the goals of government be? What do “economic efficiency,” “equity,” and “social welfare” mean, how can these concepts help us think clearly about policy issues, and what are the philosophical disputes over these concepts?

With that as background, we delve into the *market failures* that provide efficiency rationales for government intervention in the market, including externalities, public goods, imperfect competition, and asymmetric information. We also consider ways that human behavior might deviate from perfect rationality, and what that might imply for policy. Along the way, we apply these concepts to various examples of policy issues, including, among other things, the environment, health care, infrastructure, security, social insurance, transfers to the poor, and education. In each case we will think about the efficiency, equity, and other rationales for government involvement, and the pros and cons of different ways of designing policies to address the problems.

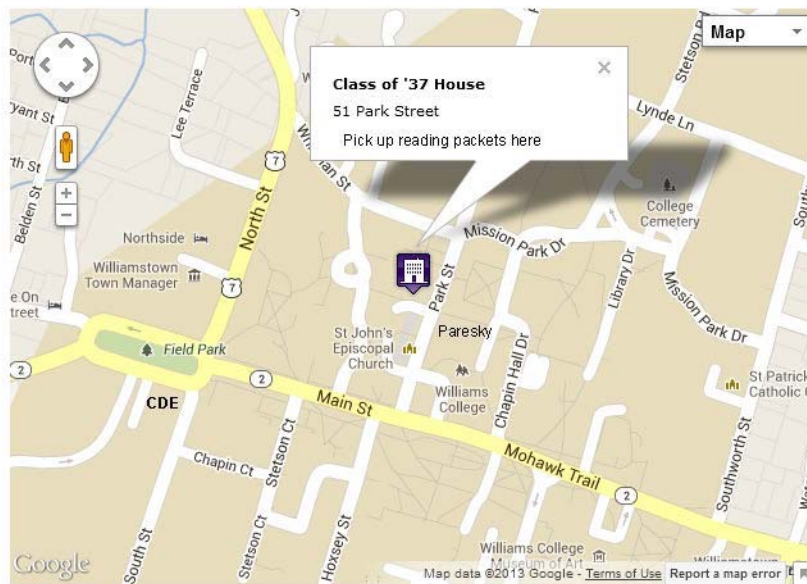
Next, we turn to the general question of how to make the government work better, addressing questions such as the following. What are the incentives of politicians and government employees, and how does the design of political institutions affect the degree to which they serve the public interest? How should responsibilities be divided up between the central government and local governments, and what are the advantages and disadvantages of

“decentralization?” What practical steps can be taken to improve the delivery of basic services? For example, how might one address problems of absenteeism and corruption? We then end the course by addressing the following question: when is it better to have the government own and produce things, and when is it better to privatize? We consider the examples of government-financed vouchers for privately-provided education, and privatization of state-owned enterprises such as water utilities, as case studies.

Course materials

There is one required text for the course: *Public Finance and Public Policy*, by Jonathan Gruber (5th edition, Worth Publishers, 2016), which can be purchased at Water Street Books or online. The 1st, 2nd, 3rd, and 4th editions are acceptable substitutes (the reading list below includes page references for all three editions of Gruber’s book). Additional required readings, with many applications to policy issues in developing and transitional countries, will be made available in various course reading packets. **All of the readings in the course packets (and the first reading assignment from Gruber’s textbook, but *not* later readings from that book) are also available as PDFs on the class “Glow” web site <<https://glow.williams.edu>>.**

The first reading packet is available now in the reading packet room, which is in the **Class of ’37 House** at 51 Park Street. The reading packet room is open 9:00am – 3:30pm Monday through Friday from **September 6th** (the first day of classes) through the end of fall semester. Here’s a map to help you the reading packet room:



You must bring your student ID and fill out a form (available at Class of ’37 House) to get your reading packet. I will make the remaining reading packets available at the reading packet room later in the semester, and I will let you know as soon as the next one is available.

Students are expected to read the textbook selections and assigned articles from the reading packet before class and be prepared to discuss them on the days indicated in the syllabus. I will periodically e-mail you a guide to upcoming readings, including a set of discussion questions to help you prepare for class. Depending on how things go, as the semester progresses, I may

modify when we cover certain readings, or skip some, or tell you to emphasize some parts of the reading and skim others -- I will make this clear in the weekly e-mail guides. All readings represent testable material; my e-mail guides to the readings and what I cover in class will be good guides to what you need to know about the readings for the exam. I will not expect you to memorize names of authors or to address points in the reading that were never mentioned in class.

Course web page

The course web page is available through Glow: <http://glow.williams.edu/>

All readings (except for the textbook), assignments, handouts, etc., will be posted there (in some cases they will be added gradually as the semester progresses).

Class meeting time

Class normally meets 11:00am – 12:15pm Monday, Wednesday, and Friday in Greylock C. Most weeks, two of those days (usually Monday and Wednesday) will be used for our regular class meetings, and the third (Friday) will be used for an optional TA session or review session, although we will occasionally have regular class meetings on Fridays. The three Fridays with regular required class meetings will be: **September 7, October 26, and November 9**. The following Fridays will have optional TA sessions: September 14, September 21, September 28, October 5, October 12, November 2, and November 16. We will have optional review sessions the following Fridays: October 19 and November 30. We will **not** have class meetings, TA sessions, or review sessions on the following dates: Monday October 8 (Fall reading period); Wednesday November 7 (Prof. Bakija will be away giving a research presentation); Wednesday November 21 and Friday Nov. 23 (Thanksgiving Break); and Friday December 7.

Course requirements

Your grade will be determined according to the following grading formula:

	CDE fellows	Undergraduates
CDE orientation	10%	-
Econ 504 writing assignment, due Mon. Dec. 10	-	10%
Econ 504 homework assignments (about 7)	15%	15%
Econ 504 class participation	5%	5%
Econ 504 midterm exam, 10am-12:30pm Mon. Oct. 22 in Greylock C*	35%	35%
Econ 504 final exam, tentatively scheduled for Monday December 17	35%	35%

- For CDE fellows, scores on the CDE orientation exam and homework on microeconomics, regression, and writing together account for 10% of the Econ 504 grade.
- Writing Assignment for Undergraduates. In lieu of the CDE orientation, undergraduates will be required to submit a writing assignment of approximately 10 double-spaced pages, due **Monday, December 10th at 11:59pm**. It will count for 10% of the final grade. (For CDE

fellows, that 10% of the grade will come from the CDE orientation instead). The writing assignment will involve making an evidence-based argument about a public policy issue in developing countries. I will provide further information on the writing assignment later in the term.

- There will also be seven homework assignments which together count for 15 percent of your grade. Tentative due dates for these assignments are listed on the schedule below, but may be adjusted as the semester progresses. Elliott Fong, the teaching assistant for Econ 504, will grade the homework assignments. Working on the homework assignments in groups is encouraged. However, if you work out an answer as part of a study group, be sure you understand exactly how to arrive at the answer. **You must write up your answer to each problem completely on your own, in your own words**, and of course you must each turn in your own individual homework. Turning in a homework assignment where significant parts of your answers are word-for-word identical, or close to identical, to the answers of a classmate is a violation of the honor code (the rules here are similar to those for plagiarism, except that in addition, you cannot quote your classmate's answers – you need to explain things in your own words). Late homework assignments will not be accepted, because I will be making the answers available shortly after they are handed in. I will drop the lowest homework grade from your grade calculation, which should take care of legitimate excuses. Unless otherwise specified, you may hand-write your homework if you want, it is not necessary to type it.
- Class participation counts for 5 percent of your grade. You should attend class regularly, come to class having done the assigned readings, and be prepared to discuss the questions about the reading that I pose to you in advance by e-mail. I reserve the right to call on people to provide their thoughts on the e-mailed discussion questions. **It is also important that you not be distracted by electronic equipment. Using a computer to take notes is discouraged, as there is good evidence from randomized controlled trials that students learn more when they take notes by hand instead of typing them into a computer (plus, there are lots of diagrams in the class which are hard to draw on computer). Smart phones and other electronic devices must be turned off and stowed.**
- The midterm exam counts for 35 percent of your grade. **The midterm is scheduled for 10am-12:30pm Mon. Oct. 22, in Greylock C.** Undergrads who have a schedule conflict are welcome to re-schedule for an alternate date and time – please talk with me as soon as possible if that is the case.
- The final exam counts for 35 percent of your grade, and will take place during the normal final exam period. The exam is tentatively scheduled for Monday December 17th – further details on time and place will be announced at some point during the semester.

Teaching Assistant

Elliott Fong <erf2@williams.edu> is the teaching assistant for this course. He is a senior at Williams College who took ECON 504 last year. Elliott will grade your homework assignments, and will run an optional review session before each homework is due (I will let you know soon when those will be scheduled). **You are required to try to answer all of the homework questions on your own before attending the TA session.** In the review sessions, you may ask Richard to explain general topics that we covered in class and that are related to the homework that you need to do, but do not ask him to solve the homework problems for you -- that's your job. In addition, the CDE teaching assistants are available by appointment to provide extra help.

Course schedule and reading assignments

The schedule below lists the topics and reading assignments for Economics 504. Some readings come from the textbook for the course: *Public Finance and Public Policy* by Jonathan Gruber. These readings are listed as "Gruber." I have provided page references for the 1st, 2nd, 3rd, 4th, and 5th editions. Other readings will be made available in printed reading packets, and in electronic format on the class "Glow" web page. You should do the assigned reading before the date that we cover the topic in class, and come to class prepared to discuss the questions about the readings that I will pose to you by e-mail.

1. Friday, September 7.

- **Introduction: What is Public Economics?**
 - Gruber, Ch. 1, Section 1.1 "The Four Questions of Public Finance" {4,073 words}
- **Empirical Tools of Public Economics Part 1: Correlation, Causation, and Randomized Trials**
 - Gruber, Ch. 3, "Empirical Tools of Public Finance," Introduction and Sections 3.1 and 3.2 {4,520 words}
 - Ayres, Ian. 2007. "The World of Chance," from *Supercrunchers*. New York: Bantam Dell, pp. 73-80. {2,533 words}

2. Monday, September 10.

- **Empirical Tools of Public Economics Part 2: Observational Data, Cross-Sectional and Time-Series Analysis, and Difference-in-Differences**
 - Gruber, Ch. 3, "Empirical Tools of Public Finance," Sections 3.3, 3.4, and Conclusion {7,697 words}
 - Gertler, Paul J., Sebastian Martinez, Patrick Premand, Laura B. Rawlings, and Christel M. J. Vermeersch. 2011. *Impact Evaluation in Practice*. Excerpts on "Causal Inference and Counterfactuals" and "Difference-in-Differences". [Portions of pp. 51-53, 58-60, 63, and 113-119.] {5,258 words}

3. **Wednesday, September 12.**

Empirical Tools of Public Economics, Part 3: Example of a Difference-in-Differences Study

- Duflo, Esther. 2001. "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment." *American Economic Review*. Vol. 91, No. 4. [Excerpt, portions of pp. 795-799 and 810-812] {2,729 words}

Efficiency, Equity, and Social Welfare, Part 1

- Gruber, Ch. 1, sections on "Equilibrium," "Social Efficiency," and "Competitive Equilibrium Maximizes Social Efficiency," and "From Social Efficiency to Social Welfare: The Role of Equity." (bottom of p. 49 – top of p. 56 in 5th ed., pp. 48-54 in 2nd through 4th eds., bottom of p. 45 - p. 52 in 1st ed.,). {3,021 words}

Friday September 14, 11:00am-12:15pm, Greylock C: TA session

4. **Monday, September 17.**

- Homework 1 due at beginning of class

Efficiency, Equity, and Social Welfare, Part 2

- Mankiw, N. Gregory. 2007. "The Political Philosophy of Redistributing Income," from *Principles of Microeconomics, 4th Edition*. Thomson-Southwestern, pp. 439-442. {2,125 words}
- Bakija, Jon. 2016. "Social Welfare, the Tradeoff between Equity and Efficiency, and the Marginal Efficiency Cost of Funds, Part I: Theory." {6,722 words}

5. **Wednesday, September 19.**

Efficiency, Equity, and Social Welfare, Part 3

- Bakija, Jon. 2016. "Social Welfare, the Tradeoff between Equity and Efficiency, and the Marginal Efficiency Cost of Funds, Part II: Evidence and Examples from Around the World."
- Olken, Benjamin A. 2006. "Corruption and the Costs of Redistribution: Micro Evidence from Indonesia." *Journal of Public Economics*, Vol. 90 [Excerpt, p. 853 and 864-866]. {1,637 words}

Friday September 21, 11:00am-12:15pm, Greylock C: TA session

6. **Monday, September 24.**

- Homework 2 due at beginning of class

Efficiency, Equity, and Social Welfare, continued

- Continued discussion of readings from last time

Public Goods

- Gruber, "Public Goods: Problems and Solutions" Ch. 7: Introduction, Section 7.1 and first part of 7.2 (pp. 191-199 in 5th ed., pp. 183-191 in 4th ed., pp. 181-189 in 3rd ed., pp. 181-185 in 2nd ed., pp. 169-177 in 1st ed.)

7. Wednesday, September 26.

Externalities

- Gruber, "Externalities: Problems and Solutions," Ch. 5, Sections 5.1 to 5.3 only. (pp. 123-139 in 5th ed., pp. 123-137 in 4th ed., pp. 121-137 in 3rd ed., pp. 120-138 in 2nd ed., pp. 115-132 in 1st ed.).

Friday September 28, 11:00am-12:15pm, Greylock C: TA session

8. Monday, October 1.

- Homework 3 due at beginning of class

Public Goods and Externalities: Evidence, Examples, and Applications

- Parry, Ian, Dirk Heine, Eliza Lis, and Shanjun Li. 2015. *Getting Energy Prices Right: From Principle to Practice*. Washington DC: International Monetary Fund. [Excerpt; read pp. 1-8, and look up your own country in the tables in Annex 6.2] {3,241 words}
- Bakija, Jon. 2016. "Positive Externalities from Investments in Knowledge." {2,210 words}
- Besley, Timothy and Maitreesh Ghatak. 2006. "Market Supporting Public Goods." Excerpted from "Public Goods and Economic Development" in Abhijit Banerjee, Roland Benabou, and Dilip Mookherjee, eds., *Understanding Poverty*, Oxford University Press. [Excerpt, portions of pp. 286-288]. {551 words}
- Harford, Tim. 2010. "The Economics of Trust." *Forbes*. July 21. {1,354 words}
- Bakija, Jon. 2012. "Trust as a Public Good or Externality Problem." {599 words}

9. Wednesday, October 3.

Imperfect Competition, Common Resources, and Infrastructure

- Mankiw, N. Gregory. 2015. "Natural Monopolies." Excerpted from *Principles of Microeconomics, 7th ed.*, Cengage Learning, pp. 216-217. {630 words}
- Bakija, Jon. 2015. "How Natural Monopoly Causes Deadweight Loss." {919 words}
- Mankiw, N. Gregory. 2015. "Public Policies towards Monopolies." Excerpted from *Principles of Microeconomics, 7th ed.*, Cengage Learning, pp. 319-321. {1,496 words}
- Mankiw, N. Gregory. 2015. "The Different Kinds of Goods," and "Common Resources." Excerpted from *Principles of Microeconomics, 7th ed.*, Cengage Learning, pp. 216-217 and 223-227. {4,157 words}
- Stiglitz, Joseph, and Jay Rosengard. 2015. *Economics of the Public Sector*. W.W. Norton. Excerpt on "User Fees," pp. 103-105. {585 words}
- Schaffner, Julie. 2015. "Infrastructure Policies and Programs." Excerpted from *Development Economics*, Wiley, pp. 471-473, 476-478, and 484-486 {4,638 words}
- *The Economist*. 2002. "Trucking in Cameroon: The Road to Hell is Unpaved." Dec. 19. {3,080 words}

Friday October 5, 11:00am-12:15pm, Greylock C: TA session. (This will be rescheduled to some time on the weekend if Mountain Day happens on October 5).

No class on Monday, October 8 (Fall Reading Period)

10. Wednesday, October 10.

- Homework 4 due at the beginning of class.

Insurance and Asymmetric Information

- Bakija, Jon. 2016. "Insurance and Asymmetric Information." {6,259 words}
- Pauly, Mark V., Peter Zweifel, Richard M. Scheffler, Alexander S. Preker, and Mark Bassett. 2006. "Private Health Insurance in Developing Countries." *Health Affairs*. Vol. 25, No. 2, March / April [Excerpt, portions of pp. 369-373]. {3,019 words}

Friday October 12, 11:00am-12:15pm, Greylock C: TA session. (This will be rescheduled to some time on the weekend if Mountain Day happens on October 14).

11. Monday, October 15.

- Homework 5 due at beginning of class

Insurance (or Lack Thereof) in Developing Countries

- Banerjee, Abhijit V., and Esther Duflo. 2011. "Barefoot Hedge Fund Managers," from *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. New York: Public Affairs. [Excerpt, pp. 134-136, 141-155]. {7,054 words}
- Cai, Jing. 2011. "Social Networks and the Decision to Insure: Evidence from Randomized Experiments in China." *Development Impact Blog*. December 5. {1,280 words}
- Friedman, Jed. 2013. "Behind Low Rates of Participation in Microinsurance: A Misunderstanding of the Insurance Concept?" *Development Impact Blog*. July 3. {1,165 words}
- Lavoie, Amy. 2009. "Mexican Program Successful at Reducing Crippling Health Care Costs." *Harvard Science*, April 7. {755 words}

12. Wednesday, October 17

Credit Market Failure due to Asymmetric Information

- Besley, Timothy. 1994. "How Do Market Failures Justify Interventions in Rural Credit Markets?" *World Bank Research Observer*, Vol. 9, No. 1 (January) [Excerpt, selected portions of pp. 31-36 and 37-40] {3,205 words}
- Banerjee, Abhijit, and Esther Duflo. 2010. "Giving Credit Where It Is Due." *Journal of Economic Perspectives*. Vol. 24, No. 3 (Summer). [Excerpt, pp. 62-69] {4,299 words}

Friday, October 19, 11:00AM-12:15PM, Greylock C: Optional Review Session for Midterm Exam (This will be rescheduled to some time on the weekend if Mountain Day happens October 19).

Monday, October 22, 10:00AM-12:30PM: MIDTERM EXAM, Greylock C

13. Wednesday, October 24.

Behavioral Economics and Public Policy, Part 1

- Gruber, "The Economics of Smoking," Ch. 6, Section 6.3 (pp. 171-179 in 5th ed., pp. 165-174 in 4th ed., pp. 165-172 in 3rd ed., pp. 163-171 in 2nd ed., pp. 156-164 in 1st ed.). {4,317 words}
- Thaler, Richard H., and Cass R. Sunstein. 2008. "Libertarian Paternalism," "Humans and Econs: Why Nudges Can Help," and "When Do We Need a Nudge?" from *Nudge: Improving Decisions about Health, Wealth, and Happiness*. New Haven: Yale University Press. Kindle Edition. [Excerpt: portions of pp. 4-7 and 72-79]. {3,890 words}
- Saugato Datta and Sendhil Mullainathan. 2012. "Behavioral Design: A New Approach to Development Policy." CGD Policy Paper 016. Washington DC: Center for Global Development. <<http://www.cgdev.org/content/publications/detail/1426679>>. [Excerpt: portions of pp. 1-12.] {5,461 words}

14. Friday October 26.

Behavioral Economics and Public Policy, Part 2

- Saugato Datta and Sendhil Mullainathan. 2012. "Behavioral Design: A New Approach to Development Policy." CGD Policy Paper 016. Washington DC: Center for Global Development. <<http://www.cgdev.org/content/publications/detail/1426679>>. [Excerpt: portions of pp. 15-24.] {4,869 words}

Health Care Policy in Developing Countries, Part 1

- Banerjee, Abhijit V., and Esther Duflo. 2011. "Low-Hanging Fruit for Better (Global) Health?" from *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. New York: Public Affairs, pp. 41-50. {4,546 words}

15. Monday, October 29.

Health Care Policy in Developing Countries, Part 2

- Banerjee, Abhijit V., and Esther Duflo. 2011. "Low-Hanging Fruit for Better (Global) Health?" from *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. New York: Public Affairs, pp. 50-70. {8,643 words}

16. Wednesday, October 31.

Transfers to the Poor, Part 1: Targeting vs. More Universal Benefits, and Methods of Targeting

- van de Walle, Dominique. 1998. "Targeting Revisited," *World Bank Research Observer*, Vol. 13, No. 2 (August), pp. 231-246. {6,786 words}
- Alatas, Vivi, Abhijit Banerjee, Rema Hanna, Benjamin A. Olken, and Julia Tobias. 2012. "Targeting the Poor: Evidence from a Field Experiment in Indonesia." *American Economic Review* Vol. 102, no. 4. [Excerpt, pp. 1206-1210 and 1212-1213]. {3,722 words}
- Hanlon, Joseph, Armando Barrientos, and David Hulme. 2010. "Asking the Community." Excerpted from pp. 113-115 of *Just Give Money to the Poor*, Kumarian Press. {1,124 words}

Friday November 2, 11:00am-12:15pm, Greylock C: TA session.

17. Monday, November 5.

- Homework 6 due at beginning of class

Transfers to the Poor, Part 2: Cash vs. In-Kind Transfers, and Effects on Labor Supply

- Fiszbein, Ariel, and Norbert Schady. 2009. *Conditional Cash Transfers: Reducing Present and Future Poverty*. Washington DC: The World Bank. [Excerpts: portions of pp. 1, 5, and 8-11] {1,992 words}
- *The Economist*. 2013. "Cash to the Poor: Pennies from Heaven." October 26. {2,502 words}
- Haushofer, Johannes, and Jeremy Shapiro. 2013. "Policy Brief: Impacts of Unconditional Cash Transfers." October 24. [Excerpt, pp. 1-3] {1,233 words}
- Banerjee, Abhijit, Rema Hanna, Gabriel Kreindler, and Benjamin A. Olken. 2017. "Debunking the Stereotype of the Lazy Welfare Recipient: Evidence from Cash Transfer Programs Worldwide." *World Bank Research Observer*. August. [Excerpts]

Wednesday, November 7: No class.

18. Friday, November 9.

Education 1: Returns to Investment; Problems with Quality

- Gruber, "Measuring the Returns to Education," Ch. 11, Section 11.4 (pp. 323-327 in 5th ed., pp. 309-313 in 4th ed., pp. 307-311 in 3rd ed., pp. 302-306 in 2nd ed., pp. 290-295 in 1st ed.)
- Banerjee, Abhijit V., and Esther Duflo. 2005. "Human Capital: Education" excerpted from pp. 484-489 of "Growth Theory through the Lens of Development Economics." In Philippe Aghion and Steven N. Durlauf., eds. *Handbook of Economic Growth*. Amsterdam and San Diego: Elsevier, North-Holland. {2,140 words}
- Bakija, Jon. 2014. "Unemployment Rate by Highest Level of Educational Attainment."
- Card, David. 2001. "Education Matters," *Milken Institute Quarterly*, 4th Quarter. [Excerpt, portions of pp. 73-77] {1,865 words}
- Haunshek, Eric A., Dean T. Jamison, Eliot A. Jamison, and Ludger Woessmann. 2008. "Education and Economic Growth." *Education Next*. Vol. 8, No. 2 (Spring). {2,964 words}
- Pritchett, Lant, Rukmini Banerji, and Charles Kenny. 2013 "Schooling is Not Education! Using Assessment to Change the Politics of Non-Learning." Center for Global Development, May. [Excerpts, pp. 3-7, 11-16] {2,686 words}

19. Monday, November 12

Education 2: Randomized Controlled Trial Evidence on School Quality

- Abdul Latif Jameel Poverty Action Lab. 2009. "Showing Up is the First Step: Addressing Provider Absence in Education and Health."
<<http://www.povertyactionlab.org/publication/absenteeism-showing-first-step>> {4,811 words}

- Kremer, Michael, Conner Brannen, and Rachel Glennerster. 2013. "The Challenge of Education and Learning in the Developing World." *Science*. Vol. 340, April, pp. 297-300. {2,723 words}
- Banerjee, Abhijit V., and Esther Duflo. 2011. "Pratham Versus Private Schools," "The Curse of Expectations," and "Why Schools Fail" from *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. New York: Public Affairs. [Excerpt, p. 84-95]. {4,425 words}
- Pritchett, Lant. 2013. *The Rebirth of Education: Schooling Ain't Learning*. Washington: Center for Global Development. [Excerpts, pp. 122-123 and 145-147.] {1,471 words}

20. Wednesday, November 14

Political Economy 1

- **Rational Voter Ignorance and Rent-Seeking**
 - Krugman, Paul. 1997. "Rat Democracy." *Slate*, May 15. {1,403 words}
 - Rosen, Harvey. 2005. "Rent-Seeking" excerpted from *Public Finance*, 7th ed., New York: McGraw-Hill, pp. 129-132. {1,170 words}
 - Robert S. Frank and Ben S. Bernanke. 2009. "Rent-Seeking." From *Principles of Economics*, 4th ed. New York: McGraw Hill. {1,636 words}
 - Pritchett, Lant. 2001. "Where Has All the Education Gone?" *World Bank Economic Review*. 15, no. 3. [Excerpts from pp. 367, 382-384, and 386-387.] {1,087 words}
- **Common Pool Problems in Politics**
 - Easterly, William. 2001. "Polarized Peoples," from *The Elusive Quest for Growth*, Cambridge: MIT Press [Excerpt pp. 255-261 and 277-279] {3,516 words}
 - Rosen, Harvey. 2005. "Log-rolling" excerpted from *Public Finance*, 7th ed., New York: McGraw-Hill, pp. 118-120. {998 words}
 - *The Economist*. 2000. "Out of Anarchy," Feb. 17. {1,083 words}
 - Beaulier, Scott A., and J. Robert Subrick. 2007. "Mining Institutional Quality: How Botswana Escaped the Natural Resource Curse." *Indian Journal of Economics and Business*, Special Issue. [Excerpt, pp. 61-63] {1,897 words}

Friday November 16, 11:00am-12:15pm, Greylock C: TA session.

21. Monday, November 19

- Homework 7 due at beginning of class
- **Political Economy 2: Accountability Mechanisms and Voting**
 - Schaffner, Julie. 2014. "Accountability Mechanisms." Excerpted from *Development Economics*, Wiley, p. 364. {541 words}
 - Ferraz, Claudio and Frederico Finan. 2011. "Electoral Accountability and Corruption: Evidence from the Audits of Local Governments." *American Economic Review*, Vol. 101, No. 4 (June). [Excerpts] {13,467 words}

Wednesday November 21: Thanksgiving break, no class

22. Monday, November 26

Fiscal Federalism and Decentralization

- Gruber, "Optimal Fiscal Federalism" Ch. 10, Section 10.2 only (pp. 281-290 in 5th ed., pp. 269-277 in 4th ed., pp. 267-275 in 3rd ed., pp. 262-270 in 2nd ed., pp. 251-258 in 1st ed.). {5,201 words}
- Schaffner, Julie. 2014. "Decentralization." *Development Economics*. Wiley, pp. 364-367. {1,346 words}

23. Wednesday, November 28.

Addressing Corruption

- Olken, Benjamin A. 2007. "Monitoring Corruption: Evidence from a Field Experiment in Indonesia." *Journal of Political Economy*. Vol. 115, No. 2. [Excerpt, pp. 200-204]. {2,235 words}
- DiTella, Rafael and Ernesto Schargrotsky. 2003. "The Role of Wages and Auditing During a Crackdown in Corruption in Buenos Aires." *Journal of Law and Economics*, April. [Excerpt, portions of pp. 269-282 and pp. 285-286] {7,819 words}

Friday, November 30.

Optional extra-help session on econometric tools used in remaining classes (fixed-effects and instrumental variables)

11:00am-12:15pm, Greylock C Classroom

In this extra-help session, I will discuss econometric strategies involving "fixed-effects." You will all already have learned about this in econometrics, but experience shows that many students benefit from learning about this topic in different ways from different instructors, and that this is helpful for understanding the readings for the last couple of classes of Econ 504, as well as material in subsequent classes (e.g., Program Evaluation, Tax Policy). Time permitting, I will also discuss instrumental variables a bit.

24. Monday, December 3.

Evidence on Privatization of State Owned Enterprises

- Galiani, Sebastian, Paul Gertler, and Ernesto Schargrotsky. 2005. "Water for Life: The Impact of Privatization of Water Services on Child Mortality in Argentina." *Journal of Political Economy*. Vol. 113, No. 1. [Excerpt reprinted in Meier, Gerald M., and James E. Rauch, eds. 2005. *Leading Issues in Economic Development*, 8th ed., by, New York: Oxford University Press, pp. 343-352.] {5,984 words}
- Nellis, John, Rachel Menezes, and Sarah Lucas. 2004. "Privatization in Latin America: The Rapid Rise, Recent Fall, and Continuing Puzzle of a Contentious Economic Policy." *Center for Global Development Policy Brief*. Vol. 3, Issue 1 (January), pp. 1-7. {4,861 words}

25. Wednesday, December 5.

Evidence on School Vouchers in Chile, and Education Reform in Brazil

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