

**14.772 Development Economics: Macroeconomics
Spring 2017 Part II**

Lectures: Tuesdays and Thursdays 2:30-4:00 (E51-151)

Recitations: Thursdays 12:00-1:00 (E51-393)

Instructor: Robert Townsend. E52-538, rtownsen@mit.edu
Office hours: Immediately after class

Michael Kramer is giving guest lectures on May 9, May 11, May 16, and May 18

Teaching Assistant: Yu Shi. E52-586, yshi25@mit.edu

Website: <http://stellar.mit.edu/S/course/14/sp16/14.772/index.html>

Contents:

The course shows how contract and general equilibrium theory can help our understanding of the functioning of financial markets, financial access and individual welfare. We emphasize in particular how theory puts testable restrictions on data and on policy implications, guidance for intervention.

Requirements:

The grade will be based on class participation (15%), three problem sets (40%) and a discussion of a paper in class with write up due after generals, in the summer (45%).

The discussion should consist of a summary of the key contribution of the paper and a critical assessment of its strengths or shortcomings. Students are strongly encouraged to present preliminary robustness checks, improvements or extensions as part of the critical assessment. The summary of the paper should be less than a third of the presentation. Final paper will be due on June 25, 2017.

The discussions will take place during the class of May 2, May 4, and the recitation of May 4. Each discussion will be allocated a 30-min slot.

	Lecture	14.772 Topic
4-Apr	1	INTRODUCTION + Risk Sharing Overview
6-Apr	2	Risk Sharing (II)

<i>6-Apr</i>	<i>Rec 1</i>	
11-Apr	3	Risk Sharing (III)
13-Apr	4	Obstacles
<i>13-Apr</i>	<i>Rec 2</i>	
18-Apr	No Class	
20-Apr	5	Village Fund
<i>20-Apr</i>	<i>Rec 3</i>	
25-Apr	6	Measurement
27-Apr	7	Structural Models
27-Apr	<i>Rec 4</i>	
2-May	8	<i>STUDENT PRESENTATIONS</i>
4-May	9	<i>STUDENT PRESENTATIONS</i>
<i>4-May</i>	<i>Rec 5</i>	<i>STUDENT PRESENTATIONS</i>
9-May	10	MICHAEL KREMER (I)
11-May	11	MICHAEL KREMER (II)
<i>11-May</i>	<i>Rec 6</i>	

16-May	12	MICHAEL KREMER (III)
18-May	13	MICHAEL KREMER (IV)

Reading List:

Topic 1: Risk Sharing

Risk Sharing

- *Alem, M. and Townsend, R.M., 2014. An evaluation of financial institutions: Impact on consumption and investment using panel data and the theory of risk-bearing. *Journal of econometrics*, 183(1), pp. 91-103.
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- Chandrasekhar, A.G., Townsend, R. and Xandri, J.P., 2013. Network Financial Centrality and the Price of Personalized Debt.
- *Chiappori, Pierre-Andre, Krislert Samphantharak, Sam Schulhofer-Wohl and Robert M. Townsend (2014) "Heterogeneity and Risk Sharing in Village Economies." *Quantitative Economics*, 5 (1, March): 1–27.
- Clavijo, J., 2013. Risk Capital Allocation for a Guarantee Fund in a Central Counterparty Clearing.
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- Deaton, A. and C. Paxson (1994), "Intertemporal Choice and Inequality", *Journal of Political Economy*, Vol. 102, No. 3, pp. 437-467.

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- Diamond, P. (1967) "The Role of a Stock Market in a General Equilibrium Model with Technological Uncertainty," *American Economic Review*, LVII (4), September 1967, 759-776
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- Feldstein, Martin; Horioka, Charles (1980), "Domestic Saving and International Capital Flows", *Economic Journal*, 90 (358): 314–329
- Friedman, Milton. *The methodology of positive economics*. 1953.
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- *Tazhibayeva, K. and Townsend, R.M., 2012. The Impact of Climate Change on Rice Production: heterogeneity and uncertainty.
- * Townsend, R.M., 1994. Risk and insurance in village India. *Econometrica: Journal of the Econometric Society*, pp. 539-591.

Townsend, R.M., 1995. Consumption insurance: An evaluation of risk-bearing systems in low-income economies. *The Journal of Economic Perspectives*, pp. 83-102.

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https://en.wikipedia.org/wiki/Contingent_convertible_bond

https://en.wikipedia.org/wiki/Shared_appreciation_mortgage

https://en.wikipedia.org/wiki/Mutual_insurance

http://www.nytimes.com/2015/05/03/magazine/want-a-steady-income-theres-an-app-for-that.html?_r=1

https://en.wikipedia.org/wiki/Fixed_income

https://en.wikipedia.org/wiki/Mortgage_loan

Theory and Economic Science

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Macro and Labor Supply

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Incomplete Markets View of Smoothing

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- Blundell, R., Pistaferri, L. & Preston, I., 2008. Consumption Inequality and Partial Insurance. *The American Economic Review*, 98(5), pp.1887–1921.
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Topic 2 - Obstacles

Private Information and Limited Commitment

- Aghion, P. and Bolton, P., 1997. A theory of trickle-down growth and development. *The Review of Economic Studies*, 64(2), pp. 151-172.
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- Blundell, Richard, Pierre-André Chiappori, and Costas Meghir (2005) "Collective Labor Supply with Children." *Journal of Political Economy*, 113 (6): 1277-306.
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Topic 3 – Village Funds

- * Kaboski, J. and R.M. Townsend (2012), "The Impact of Credit on Village Economies." *American Economic Journal: Applied Economics*, 4(2): 98-133.
- * Kaboski, J. and R.M. Townsend (2011), "A Structural Evaluation of a LargeScale Quasi-Experimental Microfinance Initiative," *Econometrica* 79(5), September 2011: 1357-1406.
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- * Ru H., and Townsend R.M., 2015. Narrowing the GAP: the Costly State Verification Regime in Rural Thailand

Topic 4- Measurement

Measurement, mapping the financial system

- Pawasutipaisit, A. and Townsend, R.M., 2011. Wealth accumulation and factors accounting for success. *Journal of econometrics*, 161(1), pp.56-81.
- *Paweenawat, A. and Townsend, R.M., 2012. Village Economic Accounts: Real and Financial Intertwined. *The American Economic Review*, 102(3), pp.441-446.
- *Samphantharak, K. and Townsend, R.M., 2009. *Households as Corporate Firms: An Analysis of Household Finance Using Integrated Household Surveys and Corporate Financial Accounting*. Cambridge University Press.
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<https://www8.nationalacademies.org/cp/projectview.aspx?key=49725>
<http://www.cfsp.org/research/workshops/flow-funds-accounts-and-savings-workshop>
<http://www.cfsp.org/research/research-projects/regional-approach-financial-savings-and-intermediation#.VqKWnTZll>

Topic 5 – Structural Models

- Dabla-Norris, M. E., Ji, Y., Townsend, R., & Unsal, D. F. (2015). *Identifying constraints to financial inclusion and their impact on GDP and inequality: A structural framework for policy* (No. 15-22). International Monetary Fund.
- * Ji, Y. & Townsend, R (2017) Bank Branch Expansion vs International Capital Flows: Integrating Local Spatial Markets with Macro Aggregates
- * Moll, B., Townsend, R. M., & Zhorin, V. (2013). *Economic Development, Flow of Funds and the Equilibrium Interaction of Financial Frictions* (No. w19618). National Bureau of Economic Research.
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- Banerjee, A.V. & Moll, B., 2010. Why Does Misallocation Persist? *American Economic Journal: Macroeconomics*, 2(1), pp. 189–206.
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- Morten, M. (2016). *Temporary migration and endogenous risk sharing in village india* (No. w22159). National Bureau of Economic Research.
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- Bryan, G., & Morten, M. (2015). Economic development and the spatial allocation of labor: Evidence from Indonesia. *Manuscript, London School of Economics and Stanford University*.
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- Nakamura, Emi, Jsef Sigurdsson, and Jn Steinsson (2016), “The Gift of Moving: Intergenerational Consequences of a Mobility Shock”, Working Paper.
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- Burnstein, A., Hanson, G., Liu, T., & Vogel, J (2017). Tradability and the Labor-Market Impact of Immigration: Theory and Evidence from the U.S.
- Buera, F. J., Kaboski, J. P., & Shin, Y. (2012). *The macroeconomics of microfinance* (No. w17905). National Bureau of Economic Research.
- Desmet, K., Nagy, D. K., & Rossi-Hansberg, E. (2015). *The geography of development: Evaluating migration restrictions and coastal flooding* (No. w21087). National Bureau of Economic Research.

Professor Kremer’s Reading List (Temporary)

- Duflo, E., Kremer, M., & Robinson, J. (2011). Nudging farmers to use fertilizer: Theory and experimental evidence from Kenya. *The American Economic Review*, 101(6), 2350-2390. Chicago
- Jack, W., Kremer, M., de Laat, J., & Suri, T. (2016). *Borrowing Requirements, Credit Access, and Adverse Selection: Evidence from Kenya* (No. w22686). National Bureau of Economic Research.
- Kremer, M., Leino, J., Miguel, E., & Zwane, A. P. (2008). *Spring Cleaning: Rural Water Impacts, Valuation, and Institutions*. Working Paper, University of California, Berkeley.
- There's No Place Like Home: Theory and Evidence on Decentralization and Politician Preferences
Vivian Hoffmann, Pamela Jakiela, Michael Kremer, and Ryan Sheely Draft