

# Economics 881.26

## Labour Markets and Economic Development

### Class Meetings

Class times	Fridays 15:05 - 17:35
Classes begin	15 January 2016
Classes end	26 February 2016
Class location	Social Sciences 311

### Instructor

Instructor	Robert Garlick
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Office	Social Sciences 204
Office hours	Wednesdays 13:45 - 15:15 for open office hours <a href="http://robertgarlick.youcanbook.me">http://robertgarlick.youcanbook.me</a> for one-on-one meetings about research

## 1 Course Overview

This is a graduate, seminar-style course studying the intersection between development economics and labour economics. The course is aimed primarily at doctoral students in economics who are interested in conducting research in development economics. Much of the material will also be relevant for graduate students interested in applied microeconomic research on labour markets.

We will cover a selection of topics at the intersection of development and labour economics but will not attempt a comprehensive survey of the literature. The topics will include both “classic” analyses of labour markets in developing countries and newer areas that are currently popular research topics. We will focus on economic topics relevant to low- and middle-income countries and will primarily read papers using data from these countries. We will only briefly discuss some macroeconomic aspects of the relationship between labour markets and economic development.

The course has three goals:

1. Prepare students to conduct applied microeconomic research at the intersection between development economics and labour economics.
2. Review the substantive literature on labour markets in developing countries.
3. Review econometric and statistical tools commonly used in this literature and study how these tools are typically applied.

Where trade-offs need to be made between these goals, we will prioritize preparation for research. In practice, this means that we will sacrifice breadth in favor of depth omit some topics entirely. We will concentrate on reading relatively recent papers and skip many canonical older papers. Some important recent papers will be skipped in favour of less influential papers that offer opportunities for interesting methodological discussion. This discussion will emphasize how methods are used in practice and the practical implications of methodological choices. This course is not a substitute for a focused microeconometrics course!

## 2 Class Structure

Each class will start with a short, hopefully interactive, lecture. This will contextualize the readings for the week within the broader literature and highlight some open questions in the literature. The lectures will not summarize the assigned papers. One student will briefly present each of the assigned readings and we will then discuss the readings as a group. I will randomly call on students during the discussion period. This means that class preparation is vital.

## 3 Course Requirements

There are three course requirements. First, **required readings and class participation**. This involves two concrete requirements. You should post a short set of discussion notes for each of the required readings in the Assignments section of the Sakai course website by 13:00 each Friday. For each paper, these notes should:

- provide a brief summary (at most 5 sentences per paper);
- discuss why the paper is considered a contribution;
- identify *at least* one limitation the paper (e.g. mismatch between theory and empirical test, poor measure of key variable, problematic interpretation of a key empirical result); and
- suggest *at least* one avenue for future research (e.g. alternative theoretical explanation for the main empirical result, alternative way to empirically test the theory).

These notes should provide a starting point for discussion, not constitute an entire discussion. You should aim for approximately **a half page of writing per paper**. The notes should be clear and concise but do not need to be detailed or eloquent. Once in class, you should be prepared to discuss the readings with the entire class or in small groups. Your discussion notes will obviously be a good starting point for this discussion. The discussion notes and class discussion are jointly worth 30% of the grade.

Second, a **presentation of one of the assigned readings**, that will mimic a conference discussion. The readings marked [Discuss] are eligible for presentation. This presentation should last at most 45 minutes. You should prepare at most 20 slides that (i) very briefly summarize the paper's main contribution, findings, and methods; (ii) explain any technical components of the paper in detail' (ii) discuss at least one substantive limitation of the the paper in detail; and (iii) suggest how this limitation might be addressed. You may discuss multiple limitations rather than focusing on only one. However, I do not want you to present a list of multiple short, superficial critiques. **I strongly encourage you to meet with me during office hours in the week that you present the paper**. I will send out an email at the beginning of the course with information about signing up for paper presentations. The paper presentation is worth 20% of the grade.

Third, a **take-home examination**. This will include some formal analysis of an economic model, data analysis, and open-ended responses to the analysis. Group work is permitted but each student should write and submit their own code and own answers. You may use any software package but I will only provide feedback on code written for R or Stata. This examination will

be due on **February 28** and will be distributed approximately three weeks before that date. The exam will be worth 50% of your grade.

## 4 Development Economics at Duke

I strongly encourage you to regularly attend seminar series. Reading published papers shows you the end product of months or years of research. Seeing seminars shows you the slightly messier work in progress and generally gives more insight into how research is actually done.

The Labor and Development seminar is held on Wednesdays from 15:15 - 16:45 in Social Sciences 111. This seminar features visiting faculty from a range of other institutions. If you are interested in meeting with a particular speaker, email me at least one week in advance and I will try to reserve a slot for you to meet with them. The International Population Health and Development workshop is held on Fridays from 12:00 - 13:00 in Social Sciences 111. IPHD is a forum for Duke, UNC and NC State students and faculty who are interested in population health and development to present their own work in progress. The Labor/Development seminar series will generally feature more polished presentations from more senior researchers. The IPHD seminar series will generally feature early stage work by students and junior faculty. You will get different insights from each series and I recommend attending both regularly.

Students who plan to specialize in development economics should also register for the IPHD workshop, which is cross-listed as Econ 911.11 and PuPol 911.1.

There are a range of other seminar series and workshops offered in the economics department that may be relevant to your research development. If you plan to work at the intersection of development and another field, I recommend attending the seminars for both fields.

You should try and actively engage with these seminars. That can mean asking questions but it can also mean writing down questions and ideas sparked by the seminar and discussing these later with other students. At this point in your career, it may be useful to come out of every seminar with a short list of research possibilities sparked by the presentation. If the speaker uses one empirical method or dataset to test a theory, how else could you do this? If the speaker presents one theoretical explanation for an empirical pattern, what other type of model might explain it? As this class meets soon after the IPHD workshops, we may sometimes discuss the seminar in class.

## 5 Development Economics Research

You should keep up-to-date on current research being conducted in your field(s) of interest. Current working papers in development economics are often posted at the National Bureau of Economic Research and the Bureau for Research and Economic Analysis of Development.

I encourage you to submit research papers to conferences as soon as you (and your advisors) think they're ready for public viewing. These can be a good opportunity to practice presenting

to unfamiliar audiences and to see what research is taking place outside Duke. There is a list of general and subfield-specific development economics conferences on the BREAD website.

## 6 Schedule and Readings

### 6.0 Background

There is no required course textbook. I strongly recommend these references for background reading:

- Joshua Angrist and Jörn-Steffen Pischke (2009). *Mostly Harmless Econometrics*. Princeton University Press
- Pranab Bardhan and Christopher Udry (1990). *Development Microeconomics*. Oxford University Press
- Jere Behrman (1999). “Labor Markets in Developing Countries”. In: *Handbook of Labor Economics Volume 3*. Ed. by Orley Ashenfelter and David Card. Elsevier, pp. 2859–2939

The first book is an accessible introduction to many of the econometric methods used in empirical microeconomics. It doesn’t provide enough detail to adapt or extend these methods but it’s a good starting point. The second book is now somewhat dated but is still an excellent example of the style of microeconomic modeling that can be used in development work. The third chapter is a good overview of research on labor markets in developing countries up to the late 1990s.

An undergraduate textbook in development economics may also be useful for this course. I generally turn first to Debraj Ray’s *Development Economics*. Gérard Roland’s *Development Economics*, and Michael Todaro and Stephen Smith’s *Economic Development* are also helpful references.

These references will be useful for the econometric methods covered in this course:

- Joshua Angrist and Alan Krueger (1999). “Empirical Strategies in Labor Economics”. In: *Handbook of Labor Economics Volume 3A*. ed. by Orley Ashenfelter and David Card. Elsevier, pp. 1277–1366
- Colin Cameron and Pravin Trivedi (2005). *Microeconometrics: Methods and Applications*. Cambridge University Press
- Angus Deaton (1997). *The Analysis of Household Surveys: A Microeconometric Approach to Development Policy*. Johns Hopkins University Press (can be downloaded from the World Bank website)
- James Heckman and Edward Vytlacil (2007a). “Econometric Evaluation of Social Programs Part I: Causal Models, Structural Models and Econometric Policy Evaluation”. In: *Handbook of Econometrics Volume 6*. Ed. by James Heckman and Edward Leamer. Elsevier, pp. 4779–4874
- James Heckman and Edward Vytlacil (2007b). “Econometric Evaluation of Social Programs, Part II: Using the Marginal Treatment Effect to Organize Alternative Econometric Estimators to Evaluate Social Programs, and to Forecast their Effects in New Environments”. In:

*Handbook of Econometrics Volume 6*. Ed. by James Heckman and Edward Leamer. Elsevier, pp. 4875–5143

- Guido Imbens and Jeffrey Wooldridge (2009). “Recent Developments in the Econometrics of Program Evaluation”. In: *Journal of Economic Literature* 47.1, pp. 5–86
- Jeffrey Wooldridge (2010). *Econometric Analysis of Cross Section and Panel Data*. The MIT Press

I will assign specific methods-orientated readings in some weeks as well. Cameron and Trivedi’s book is quite terse but is very clear and probably the broadest textbook treatment of modern empirical microeconomic methods. Wooldridge’s book covers a narrower range of topics in more detail. Deaton’s book is now a bit dated in some areas but covers some topics omitted from Cameron and Trivedi’s book and has great applications. The review papers by Angrist & Krueger and by Imbens & Wooldridge are much briefer but are very good short introductions to “reduced-form” empirical methods. The two handbook chapters by Heckman & Vytlacil are considerably denser and more technical readings but should be very useful for students interested in doing more high-tech empirical work.

These fairly non-technical readings should be useful reading for students who plan to specialize in development economics, although there is substantial overlap in the content they cover:

- “Agenda for Development Economics” symposium in the 2008 *Journal of Economic Perspectives*, volume 24, number 3.
- Abhijit Banerjee et al. (2005). “New Directions in Development Economics: Theory or Empirics?” In: *Economic and Political Weekly*
- Abhijit Banerjee and Esther Duflo (2007). “The Economic Lives of the Poor”. In: *Journal of Economic Perspectives* 21.1, pp. 141–168
- Abhijit Banerjee and Esther Duflo (2011). *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. Public Affairs
- Angus Deaton (2010). “Instruments, Randomization, and Learning about Development”. In: *Journal of Economic Literature* 48.2, pp. 424–455
- Esther Duflo, Rachel Glennester, and Michael Kremer (2007). “Using Randomization in Development Economics Research: A Toolkit”. In: *Handbook of Development Economics Volume 4*. Ed. by Paul Schultz and John Strauss. Elsevier, pp. 3895–3962
- Jessica Cohen and William Easterly, eds. (2009). *What Works in Development? Thinking Big and Thinking Small*. The Brookings Institution
- William Easterly (2002). *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*. The MIT Press
- Amartya Sen (2000). *Development as Freedom*. Anchor

These references explore the ongoing debate about the role of theory in empirical microeconomics:

- Joshua Angrist and Alan Krueger (2001). “Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments”. In: *Journal of Economic Perspectives* 15.4, pp. 69–85
- “Taking the Con out of Economics” symposium in the 2010 *Journal of Economic Perspectives*, volume 24, number 2.
- James Heckman (2010). “Building Bridges between Structural and Program Evaluation Approaches to Evaluating Policy”. In: *Journal of Economic Literature* 48.2, pp. 356–398
- James Heckman and Sergio Urzua (2010). “Comparing IV with Structural Models: What Simple IV Can and Cannot Identify”. In: *Journal of Econometrics* 156.1, pp. 27–37
- Guido Imbens (2010). “Better LATE Than Nothing: Some Comments on Deaton (2009) and Heckman and Urzua (2009)”. In: *Journal of Economic Literature* 48.2, pp. 399–423
- Michael Keane (2010). “Structural vs. atheoretic approaches to econometrics”. In: *Journal of Econometrics* 156.1, pp. 3–20

## 6.1 Returns to Education and Instrumental Variables; 15 January 2016

Required readings:

- Chapter 4 of Joshua Angrist and Jörn-Steffen Pischke (2009). *Mostly Harmless Econometrics*. Princeton University Press
- Esther Duflo (2001). “Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment”. In: *American Economic Review* 91.4, pp. 795–813
- Robert Jensen (2012). “Do Labor Market Opportunities Affect Young Women’s Work and Family Decisions? Experimental Evidence from India”. In: *Quarterly Journal of Economics* 127.2, pp. 753–792

## 6.2 Segmented Labour Markets, the Roy Model, and Marginal Treatment Effects; 22 January 2016

Required readings:

Discuss Omar Arias and Melanie Khamas (2008). *Comparative Advantage, Segmentation and Informal Earnings: A Marginal Treatment Effects Approach*. Discussion Paper 3916. IZA

- James Heckman (2010). “Building Bridges between Structural and Program Evaluation Approaches to Evaluating Policy”. In: *Journal of Economic Literature* 48.2, pp. 356–398
- pages 196-206 Pranab Bardhan and Christopher Udry (1990). *Development Microeconomics*. Oxford University Press

### **6.3 Migration; 29 January 2016**

Required readings:

Discuss Samuel Bazzi (2014). “Wealth Heterogeneity and the Income Elasticity of Migration”. Working paper, Boston University

- Michael Clemens (2011). “Economics and Emigration: Billion-Dollar Bills on the Sidewalk?” In: *Journal of Economic Perspectives* 25.3, pp. 83–106

Discuss Taryn Dinkelman and Martine Mariotti (2015). “The Long Run Effects of Labor Migration on Human Capital Formation in Communities of Origin”. Working paper, Dartmouth

### **6.4 Home Production, Market Employment, and the Separation Hypothesis; 5 February 2016**

Required readings:

- pages 7-19 Pranab Bardhan and Christopher Udry (1990). *Development Microeconomics*. Oxford University Press

Discuss Hanan Jacoby (1993). “Shadow Wages and Peasant Labour Supply: An Econometric Application to the Peruvian Sierra”. In: *Review of Economic Studies* 90, pp. 903–921

Discuss Daniel LaFave and Duncan Thomas (2014). “Farms, Families, and Markets: New Evidence on Agricultural Labor Markets”. Working paper, Colby College

### **6.5 Financial Frictions and Labour Markets; 12 February 2016**

Required readings:

- pages 76-93 Pranab Bardhan and Christopher Udry (1990). *Development Microeconomics*. Oxford University Press

Discuss Seema Jayachandran (2006). “Selling Labor Low: Wage Responses to Productivity Shocks in Developing Countries”. In: *Journal of Political Economy* 114.3, pp. 538–575

Discuss Melanie Morten (2013). “Temporary Migration and Endogenous Risk Sharing in Village India”. Working paper, Stanford University

### **6.6 Government Policy, 19 February 2016**

Required readings:

Discuss Timothy Besley and Robin Burgess (2004). “Can Labor Regulation Hinder Economic Performance? Evidence from India”. In: *Quarterly Journal of Economics* 119.1, pp. 91–134

Discuss Prashant Bharadwaj, Leah Lakdawalla, and Nicholas Li (2015). “Perverse Consequences of Well-Intentioned Regulation: Evidence from India’s Child Labor Ban”. Working paper, UCSD, including the theory appendix

- Richard Freeman (2010). “Labor Regulations, Unions, and Social Protection in Developing Countries: Market Distortions of Efficient Institutions?” In: *Handbook of Development Economics Volume 5*. Ed. by Dani Rodrik and Mark Rosenzweig. Elsevier, pp. 4657–4702

## 6.7 Structural Change, 26 February 2016

Required readings:

Discuss David Atkin (2015). “Endogenous Skill Acquisition and Export Manufacturing in Mexico”. Working paper, MIT

- Judith Frías, David Kaplan, and Eric Verhoogen (2009). “Exports and Wage Premia: Evidence from Mexican Employer-Employee Data”. Working paper, IMSS
- Margaret McMillan, Dani Rodrik, and Íñigo Verduzco-Gallo (2014). “Globalization, Structural Change, and Productivity Growth, with an Update on Africa”. In: *World Development* 63, pp. 11–32