ECON 125: ECONOMIC DEVELOPMENT, MICROFINANCE, AND SOCIAL NETWORKS
SAMPLE SYLLABUS

Contact information.
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Logistics.
    Class times: T/Th (11.30-1.20)
    Course website: canvas

Course description. This course will provide an introduction to the study of the financial lives of households in less developed countries. We will focus on savings, credit and microfinance, informal insurance, social learning (how communities learn about new technologies, products, and job opportunities), corruption, and redistribution. We will emphasize the role that social networks play in each of these study areas. We will focus on questions such as

- Why do the poor seem to systematically undersave and what institutions have organically developed to cope with this?
- Why do the poor and rich face such different interest rates?
- Without access to formal credit or insurance, how do households in less developed countries deal with irregular income? Is microfinance a panacea?
- How should a policymaker structure information dissemination campaigns? What strategies are likely to succeed, what are likely to fail and lead to misinformation traps?
- How should redistribution and tax policy be structured when property rights are poor and corruption risk is high?

To address these sorts of questions we will make use of economic theory to structure our thinking and then turn to empirical analyses that test competing theories.

Goals for the class. In this course you will study some of the key theoretical ideas and empirical analyses that investigate the financial lives of the poor. I have three basic goals for this class. After taking the course you will be able to:

(1) Identify the roles of various potential causes of “market failures” in developing countries, including asymmetric information, time-inconsistency, moral hazard.

Date: Updated March 13, 2019.
(2) Understand some of the core theoretical arguments surrounding market failures in developing economies, and be able to use this intuition in other settings. The theoretical concepts we focus on in this class are portable.

(3) Understand empirical evidence in economics. Specifically, you should be able to identify the qualities of a credible empirical study and also critically evaluate empirical work in popular as well as academic settings. This involves understanding the advantages and disadvantages of empirical analyses using observational data, experimental data, as well as both model-based approaches versus comparisons of means.

Prerequisites. The prerequisites are Econ 52 and 102B. Econ 118 would also help, though is not required. This class is designed for juniors and seniors majoring in Economics, or with a strong quantitative background. The problem sets will require data analysis with a statistical software package called Stata as well as Matlab. You are of course welcome to use other programs as well (e.g., R).

Grading and assignments.

- Problem sets (20%).
  There will be 4-6 problem sets during the quarter. They will contain both theoretical and empirical exercises. You may need to use Stata, Matlab, or R for some of the exercises.

- Midterm (25%).
  The midterm will be on May 14 and anything covered through May 10th is fair game.

- Class Discussion (15%)
  You will have to lead a 20 min. class discussion on a required reading. You should understand the reading quite well and prepare a short summary of the research. You will then present the paper for 20 minutes (prepare a deck of about 15-20 slides) and then open the floor to questions.
  - State the motivation and research question(s). [2-3 slides]
  - Explain the method used to perform the research. If there is a model, go through the intuition. If there is an experiment, explain the design choices. [3-5 slides]
  - Explain the empirical analysis and include any key tables. [3-5 slides]
  - Explain key conclusions and/or policy recommendations [1-2 slides]
  - Critique any limitations of the study. [1-2 slides]
  - Prepare 3-5 questions you would like to discuss with the class. [1 slide]

- Quizzes (15%).
  On 5-10 randomly chosen days throughout the semester, I will begin class with an extremely short and non-technical pop-quiz. The quizzes will ask about the key ideas in the reading material for the class as well as, potentially, material that we have covered in recent lectures. I will drop your lowest pop quiz grade.
Paper (25%).
The term paper is due on the last day of class. You will have to select one of the topics that we cover in class and write a 7-10 page paper that explores in detail the core research questions that have been studied, the state of the literature (including but also beyond the papers covered in class), open questions, and policy recommendations. Your paper should evaluate the strengths and weaknesses of the work that has been done to date. The goal is for you to become an “expert” on one of the topics we have covered in class.

– Suggested timeline for the assignment, so things aren’t left to the last minute:

* Look through the syllabus and pick a topic / unit you are interested in by April 12th. Email me your topic choice. I will give you some suggested reading if the topic makes sense or I might push you in a different direction.
* Refine your thinking about the topic through May 7th. Email me a sketch of what you think the “state of the literature” is, what questions you have / are interested in given what you have read, and a rough outline of the paper. I will give you feedback and where I would like you to focus on going forward.
* Have a reasonable draft by May 21st. Email the draft to me to get feedback on the draft before your final submission.

– Suggested structure of the paper:

* Section 1: Introduction
* Section 2: Literature review
* Section 3: New directions/ research questions
* Section 4: Policy design: recommendations and questions

Other course policies.

• Students with Documented Disabilities: Students who may need an academic accommodation based on the impact of a disability must initiate the request with the Office of Accessible Education (OAE). Professional staff will evaluate the request with required documentation, recommend reasonable accommodations, and prepare an Accommodation Letter for faculty dated in the current quarter in which the request is made. Students should contact the OAE as soon as possible since timely notice is needed to coordinate accommodations. The OAE is located at 563 Salvatierra Walk (phone: 723-1066, URL: http://studentaffairs.stanford.edu/oae).

• Missed exam: The Department of Economics has a common policy across courses that governs exam attendance. Students must take each exam on the scheduled date. Exam dates will not be changed for individual students to accommodate job interviews, family events, etc. Exceptions will be made only
for serious medical reasons or in the event of a death in the family. In the case of a medical problem, you must provide a letter from a doctor stating explicitly that the medical problem prevents you from taking the exam. If a student-athlete must be off-campus the day of an exam, he/she must take the exam on the scheduled exam date and supply his/her answers by fax on that date. Please read the guidelines at http://economics.stanford.edu/undergraduate/economics-common-syllabus.

- Requests for re-grading: The department common syllabus also lays out the process that must be followed to request re-grading of an assignment or exam. All re-grade requests should be submitted in writing, to the professor, copying the director of undergraduate studies (Professor Pete Klenow, klenow@stanford.edu), within a week from when we return your work. Students must not approach either instructor or TA with an oral request before making their written request. Please read the full department policy carefully, as we will only re-grade problem sets and exams if the request complies with it.

- Late assignments: Late assignments will not be accepted.

Readings. The required readings for this class mostly consist of academic papers. Required readings are starred and are to be read before class. You do not need to understand every equation or every detail in the required articles. However, I expect you to understand the theory and empirical methods used by the authors.

I also mention supplementary articles that may be covered in class. For these articles, you are responsible for what I cover in class – not the entirety of the articles themselves – though it may be useful to read them ahead of time. Of course, they may also be useful for your final paper.

I will rely on several textbooks. Only the starred one is required.


Course Outline. The course will roughly follow the structure below – but this is a live document and therefore things are subject to change. Remember, required readings are starred.

I Introduction
- Banerjee and Duflo, §1.

II Financial system of the poor
(a) Overview
- Banerjee and Duflo, §8.
(b) Lack of Access to Savings


(c) Permanent Income Hypothesis


(d) Savings and Time Inconsistency

- Watch Last Week Tonight episode on payday loans: https://www.youtube.com/watch?v=PDylgzybWAw
- Karlan and Appel, §7.

(e) Saving in Groups and Social Reputation


(f) Informal Insurance: How do the poor cope with risk?
★ Banerjee and Duflo §6
[Read Abstract, Introduction, compare Fig. 1 and 3. Read and understand where equation (14) came from. Read Conclusion (Section 7).]

• Ray, §15.1-15.4.

(g) Credit and Money Lenders
★ Banerjee and Duflo §7.

• Ray, §14.2-14.4.

III Microfinance
(a) Overview
★ Brian Lehrer/Abhijit Banerjee: https://www.youtube.com/watch?v=eM-pKMOBstE#t=43m25s
★ Banerjee. (2012). “Microcredit under the microscope: What have we learnt in the last two decades, what do we need to know?” https://economics.mit.edu/files/9071 [Read whole paper]

• Ray, §14.5-14.6.

(b) Insurance and incentive stories
ECONOMETRICA, 77(6), 1993-2008. [Read sections I to III, make sure you understand figure 1.]


(c) Who hears about it?


(d) Group composition: who joins with whom and why?


• 2 videos:
  – a talk by Dean Karlan on a Mexico-wide microfinance expansion: http://www.youtube.com/watch?v=v61CCDLF6ss
  – a response by Abhijit Banerjee on the same topic: http://www.youtube.com/watch?v=5wjp7msxbY8


(e) Does the group really matter? Group vs individual


• Breza, Emily. (2013). “Peer Effects and Loan Repayment: Evidence from the Krishna Default Crisis.” [Read Intro, Abstract, Conclusion. Also make sure you understand the empirical strategy.]


(f) What are loans used for?


(g) How does microfinance impact the social network?

(h) What does demand look like?

(i) What happens with large scale expansion?

   - Rai and Sjöstöm. “Redesigning Microfinance”

(j) Do banks channel deposits to the right folk?

   - Banerjee, Cole and Duflo. “Banking Reform in India.”

IV Information
(a) Adoption of new technology

(b) Learning about jobs

(c) Learning about prices

(d) How to leverage this information?

(e) How straightforward is information dissemination policy?

V Public finance
A. Public goods:

B. Redistribution:


VI Firms and contracts
A. Overview

B. Networks of Firms
• Bertrand and Schoar. Family Firms.