Class 1: Redistribution, Growth and Welfare

This exercise is based on Besley, T. and Burgess, R. (2003). Halving Global Poverty. *The Journal of Economic Perspectives*, 17(3):322.

1. Growth theorists are motivated, in part, by the belief that uncovering the drivers of growth will allow us to better tackle the global poverty problem. Do you find this argument convincing? What type of data do you feel is necessary to translate the theoretical predictions into concrete policy lessons?

2. How are the country poverty measures used in the paper constructed? What steps are taken to make them comparable across countries? What problems of comparability of poverty rates across countries remain? Explain why poverty measures for countries tend to be scarcer than GDP measures.

3. How are GDP per capita measures constructed and made comparable across countries? Do you feel they accurately capture levels of well-being in a country? If not, why not?

4. How is growth related to poverty reduction in this paper? Write down and explain the equation that enables us to link growth to poverty reduction. How would the analysis change if poverty figures were only available for a single year?

5. What are the key inferences you take away from examination of Table 1? What are the key inferences you take away from examination of Table 2? What problems do you have with interpreting the evidence in these tables as showing that there is a causal link running from growth and inequality reduction to poverty reduction?

6. You have become the Chief Economist of the World Bank. There is intense pressure upon you to come up with an agenda for halving global poverty by 2015. What are the key elements of the agenda that you would propose?

Class 2: Media and Policy

This exercise is based on Besley, T. and Burgess, R. (2002). The political economy of government responsiveness: Theory and evidence from India. *Quarterly Journal of Economics*, 117(4):14151451.

1. Provide the intuition from the model as to how media development, political participation and political competition can influence government responsiveness.

2. What are the key features of calamity relief policy in India? Do you feel that this system represents an appropriate setting in which to test the theory?

3. What are the key insights one can glean from Tables III, IV and V on the links between media development and government responsiveness. Do the results broken out by language of circulation (Table IV) or where newspaper circulation is instrumented with ownership (Table V) increase our confidence in the basic results?

4. What do Tables III and VI tell us about the influence of politics on government responsiveness? What is the difference in interpretation of level (Table III) and interaction (Table VI) effects? How important are political factors relative to economic factors in determining government responsiveness?

5. You are a high powered World Bank official given responsibility for improving the accountability of governments worldwide. Based on the results in this paper which concrete institutions would you recommend as essential for ensuring that governments are responsive to the need of their citizens? How might you go about promoting the development of these institutions?

6. Do you feel that the results in the paper provides empirical confirmation of the statement that *"information is power"*.

Class 3: Property Rights

This exercise is based on Lin, J. (1992). Rural Reforms and Agricultural Growth in China. *The American Economic Review*, 82(1):3451.

1. Summarise the evidence which suggests that there was an upsurge in the growth rate in agriculture during the 1978-1984 period?

2. What are the main mechanisms that Lin proposes as candidates for explaining increased agricultural growth in China in the 1978-1984 period?

3. Describe the form of the data set used by Lin. Would having access to household data on farms over the same period helped identify the impact of institutional reforms on agricultural productivity? To what extent does the phased introduction of HRS help us to identify its impact on productivity?

4. Write down and explain the main estimating equation used in the paper. With reference to Table 5 and focussing on columns (1) and (5) assess what role (a) institutional reform, (b) price reforms and (c) market development have played in driving up agricultural growth rates in China?

5. What are the main policy conclusions to be drawn from the paper? To what extent do the results support the thesis that strengthening the property rights over land can improve investment incentives and hence agricultural growth?

Class 4: Economic Growth: The Neo-classical and Endogenous story

This exercise is based on Jones, B. & Olken, B. (2005). Do Leaders Matter? National Leadership and Growth since WW2. *Quarterly Journal of Economics*

1. Discuss the motivation behind this paper and the historical debate on the role of leaders.

2. Discuss the dataset used in this paper. Explain why using "change of leadership regardless of its cause" as an explanatory variable would yield misleading results. Discuss identification strategy chosen by the Authors. Are you convinced this strategy allows them to measure the impact of leaders on growth?

3. Do the result in Table 3 suggest that "*leaders matter*"? The Authors also report "*control timings*". Why?

4. Discuss the results in Table 7. Do leaders seem to affect some policies more than others?

5. Discuss the implication of these results for the neoclassical model of economic growth.

Class 5: **Economic Growth: Education and Human Capital**

This exercise is based on Mankiw, N.G., Romer, D. and Weil, D. (1992). A Contribution to the Empirics of Economic Growth. Quarterly Journal of Economics 107 (May): 407-38.

1. Mankiw et al. show that the sign of the coefficients on the capital accumulation ratio (s) and on ($n + g + d$) are those predicted by the Solow model. What is the sign? Why? Although the signs are right Mankiw et al. find that the coefficients are too big. With respect to what?

2. Do you expect human capital to affect income? Why? Do you expect the human capital accumulation ratio (share of savings invested in human capital) to affect the growth rate in the long run within the framework of the Solow model? Why? Why not?

3. How does the exclusion of s_h affect the estimated coefficient of s_k? How does your answer depend on the sign of the correlation between s_h and s_k?

4. Do Mankiw et al. find evidence in favour of absolute convergence? Do they find evidence in favour of conditional convergence? Whats the difference between the two?

5. "Since the rate of physical and human capital accumulation (s_h and s_k) have no effect on long run growth, government policies that promote accumulation are irrelevant for a countrys standard of living". Do you agree with this statement? Explain you arguments.

Class 6: Land Redistribution

This exercise is based on Besley, T. and Burgess, R. (2000). Land Reform, Poverty Reduction, and Growth: Evidence from India. *The Quarterly Journal of Economics*, 115(2):389430.

1. Discuss, in specific relation to the results presented in the paper, why regional data drawn from a single country gives us better insights into the relationship between land reform, poverty and growth than would cross-country data? Organise your answer around the major types of variables being used in the paper.

2. Discuss the construction of the land reform variable being used in the regressions. What ideas do you have on alternative ways of constructing the land reform variable? Discuss why measurement error is major concern with the land reform variable as it has been used in the paper?

3. Summarise the basic pattern of results in Table III. Discuss why inclusion of state and year effects is essential in the context of this regression. What type of factors would these variables be picking up? Also provide the intuition as to why it makes sense to lag the land reform variables in Table III.

4. With reference to Table IV discuss what other types of variables might be included in the regression to control for omitted policy effects. To what extent does the rural-urban differencing procedure shown in columns (6) - (8) in Table III of the paper mitigate these concerns?

5. Table VI presents results where political instruments are used to instrument land reform in regressions relating land reform to poverty. Are the basic results presented in Table III robust to this procedure? Discuss the extent to which use of political instruments solves of the problem of potential endogeniety of the land reform variable(s).

6. What are the main policy conclusions that you can draw from the paper?

Class 7: Poverty, Undernutrition & Intra-household Allocation

This exercise is based on Subramanian, S. and Deaton, A. (1996): The Demand for Food and Calories. *Journal of Political Economy*, 104 (1).

1. Discuss the household data set being used in the paper. What characteristics make it appropriate for looking at the the relationship between income and nutrition in rural Maharashtra? In what ways is it more appropriate for this purpose than the data set used by Behrman and Deolalikar (1987)?

2. State the revisionists position as regards the relationship between income and nutrition. Discuss the reasons which might lead the elasticity of demand for calories to diverge from the elasticity of demand for food which underlie this position. Do you find these convincing and more importantly can these concerns be dealt with through use of various econometric fixes?

3. Discuss the pattern of substitution shown in Table 1. Is there evidence that substitutions are entirely in the direction of improved quality or is there some evidence that people also increase nutritional intake as they get richer?

4. Discuss Figures 2 and 3. To what extent do you feel that these findings suggest that calorie intake will improve with increasing income. How does the calorie-income relationship vary with the level of income? Is this consistent with what we would expect from theory?

5. Discuss the results presented in Table 2. How does including controls for demographics, occupation and location effects affect the size of the calorie-income elasticities? Are these results consistent with those obtained using nonparametric regression? Do the IV results presented in Table 3 reinforce the OLS results presented in Table 2?

6. What implications would finding calorie elasticities close to zero have for the design of public policy? How would the findings presented in this paper change that view?

Class 8: Credit, Saving and Insurance

This exercise is based on Burgess, R., and R. Pande. Do rural banks matter?: evidence from the Indian social banking experiment. American economic review 95, no. 3 (2005): 780-795.

1. Set out the theoretical arguments as to why banking expansion may reduce or increase rural poverty.

2. What is the form of the data used in the paper? What are the key types of variables which are used?

3. What is the nature of the endogeniety problem encountered in the paper? Explain the identification strategy used in the paper to get around this problem. Why are interactions between initial financial development and the timing of the license regime shifts used as instruments for rural branch expansion?

4. Summarise the key findings from the reduced form evidence shown in Tables 4 and 5. Does this evidence help to convince you that rural branch expansion affects rural poverty?

5. Summarise the key findings from the instrumental variables evidence shown in Tables 7, 8 and 9. Why does this evidence look so different from the OLS results presented in Table 7.

6. What lessons would you draw from the paper as regards using state-led bank branch expansion versus microfinance as a means of attacking rural poverty?

Class 9: Microfinance

This exercise is based on the Lecture Notes on Microfinance

1. (a) What are the characteristics of the rural financial markets in developing countries?

   (b) Why do traditional formal sector banks find it difficult to lend to the people living in the rural villages in developing countries?

   (c) Explain how microfinance institutions are able to overcome these problems by lending to joint-liable groups instead of lending to individuals.

2. When lending to agents who have no collateral, explain how group-lending with joint-liability is able to solve the problem of under-investment Stiglitz Weiss (1981) and over-investment de Meza Webb (1987).

3. Explain why the repayment rate improves if the group members are able to impose social sanctions on each other.

4. Each wealth-less agent has a project which requires an initial investment of £200. The project produces output valued at £500 if it succeeds and £0 when it fails.

   There are two types of agents. For type a agent, the project succeeds with probability 0.2 and fails with probability 0.8. For type b agent, the project succeeds with probability 0.8 and fails with probability 0.2.

   The lender lends to groups of two with a group lending contract as follows: Each agent in the group repays £300 when both her own and her peer's project succeed, £400 when her own project succeeds but her peer's project fails and £0 when her own project fails.

   (a) Show that the type b agent prefers to group with another type b agent as compared to type a agent.

   (b) Explain why type a agent is not able to group with type b agent even though she would like to.

Class 10: Social Networks and Social Capital

This exercise is based on Miguel, E. and Gugerty, M. (2005). Ethnic diversity, social sanctions, and public goods in Kenya. *Journal of Public Economics*, 89(11-12):2325–2368.

1. What does economic theory have to tell us about the mechanisms through which polarisation (defined along tribal or income dimensions) can affect levels of public good provision?

2. Explain why local school choice may complicate the relationship between ethnic diversity and school funding?

3. Describe how Gugerty and Miguel capture ethnic diversity in his study. What are the main ethnic groups and what do they posit as the mechanisms as to why greater ethnic diversity might lead to lower school funding in Western Kenya. What is the identification procedure that Miguel relies on to isolate the effect of ethnic diversity on school funding? Do you find this procedure convincing?

4. What type of data does Gugerty and Miguel use to look at the relationship between ethnic diversity and school funding in Western Kenya? Explain the instrumentation procedure being employed in Tables 5 and 6. What types of omitted variables might be driving the relationship between ethnolinguistic fractionalisation (ELF) and school funding?

5. Tables 5 and 6 mainly find a negative and significant impact of ELF on school funding. Explain how the results on other primary school outcomes (Table 7), school committee records (Table 8) and well maintenance (Table 10) help to increase our con.dence that ethnolinguistic fractionalisation (ELF) affects public good provision in Western Kenya.

6. Ethnic composition is largely fixed in Western Kenya. What role can public policy play in terms of reducing the "*costs*" of polarisation along this dimension as regards local public good provision?

Class 11: Decentralisation and Public Goods Provision

This exercise is based on Besley, T., Pande, R. and Rao, V. (2005), Political Selection and the Quality of Government: Evidence from South India. mimeo, Department of Economics, LSE.

1. What are the key empirical predictions coming out from the model presented in the paper?

2. Describe how the data used in the paper is collected? Over what time period is the data collected? In the regressions presented in the results section what are the key units of observation?

3. Explain why the authors focus on districts which are neighbours to one another in adjacent states. How does this help improve identi.cation of political selection and policy effects? How would having a panel of households in the areas before and after the 73rd amendment help improve identification?

4. With reference to Tables 2 and 3 explain what characteristics are associated with being a politician and how the institutional characteristics of villages mediates political selection.

5. With reference to Tables 4 and 5 explain which factors determine whether a household receives a BPL card. How do the authors assess whether politicians benefit disproportionately from public transfer programs? What types of politicians are less likely to benefit from public transfer programs?

6. Based on the evidence presented in the paper do you feel that giving local government in India greater political power has bene.ted citizens? What type of additional evidence would assist you in answering this question?

Class 12: Regulation and Development

This exercise is based on Djankov, S., La Porta, R., Lopez-De-Silanes, F., and Shleifer, A. (2002). The Regulation Of Entry. *The Quarterly Journal of Economics*, 117(1):1–37.

1. Discuss the content of different theories regarding the role of regulation. What predictions would these different theories have for the consequences of entry regulation in the data set analysed in the paper.

2. Discuss how the different measures of entry regulation are constructed. Do you have suggestions on alternative methods for constructing proxies of entry regulation? What basic patterns can you discern in the data arrayed in Table III?

3. What does Table IV tell us about how entry regulation is linked to various social outcomes? Do these results suggest that entry regulation is serving the public interest?

4. Now examine Table V. What do these results tell us about who gets the rents from entry regulation? Are these results in line with the tollbooth theory of regulation?

5. Use Table VII to comment on which types of governments seem to create more entry regulation. Does it appear to be the case that it is governments which are more accountable to citizens that create more entry regulation? How do these results help us to discriminate between the public interest and public choice views of regulation?

6. In your view should the effects that the authors find on different outcomes be treated as causal? What are the problems you have with such an interpretation? What are the main policy conclusions that you would draw from the study? Taken together do the results presented in the paper provide support for the "*helping hand*" or "*grabbing hand*" theories of regulation?