14.772 Development Economics: Macroeconomic Issues  
Spring 2013

Lectures:  Tuesday 2:30 – 4:00  
Thursday 2:30 - 4:00  
Location:  E51-057

Recitations:  Thursday 12:00-1:00  
Location: E51-151

Instructor: Robert Townsend. E52-252c, 617- 452-3722, rtownsen@mit.edu

Teaching Assistant: Parit Sripakdeevong, sripakdp@mit.edu

Website: https://stellar.mit.edu/S/course/14/sp13/14.772/

Prerequisites:
This class contributes to the fulfillment of requirements for the Development field for Economics Ph.D. students at MIT. People other than Economics Ph.D. students should consult with the instructors before enrolling. Students should have taken or be concurrently taking Ph.D. level macroeconomics, microeconomics, and econometrics.

Requirements:
The grade will be based on, class participation, 3 problem sets, a mid-term exam, and a research proposal. Two problem sets will cover theoretical and empirical problems related to papers discussed in the class. One problem set will consist of an empirical exercise that will extend material covered in class. The research proposal should consist of a research strategy to address questions that came up during the class. Ideally such proposal could lead to a third year paper. We will discuss the proposals during the last lecture of the class. We plan to have three or four students presenting their proposals. So if you like to present your ideas to get feedback, please let the TA know. All research proposals are due in the last lecture.

Readings:
Most readings can be reached through the Stellar website. Please inform the TA of any broken links. You may need to be on campus to access links to copyright-protected materials (e.g. NBER working papers, JSTOR). Readings that are not available online will be available via library reserve.

Development/Macro Seminar:
Everyone is encouraged to attend the Development Seminar, which meets on Wednesdays, 2:30 - 4:00 p.m. When there is an out-of-town speaker, we normally take the speaker out to dinner, and we will try to save a couple of spots for graduate students each time. Let us know if you are interested. You are also encouraged to go to the Macro Seminar, which meets Tuesdays, 4 - 5:30 at MIT in the Freeman Room. Usually, there are 3 or 4 graduate students taking the speaker for lunch on Tuesdays. Again, let us know if you are interested.
Development/Macro Lunch:
Everyone is also encouraged to attend the Development or Macro lunch. Unfortunately both lunches meet at the same time, namely Mondays from 12:00PM to 1:00PM. The development lunch meets in E51-372, the macro lunch in the Freeman Room.

<table>
<thead>
<tr>
<th>Date</th>
<th>Lecture</th>
<th>Day</th>
<th>Topic/Main paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-Feb</td>
<td>1</td>
<td>Tuesday</td>
<td>Introduction</td>
</tr>
<tr>
<td><strong>Part 1: General Equilibrium models of financial deepening and growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7-Feb</td>
<td>2</td>
<td>Thursday</td>
<td>Micro founded Macro Models</td>
</tr>
<tr>
<td>7-Feb</td>
<td>Rec 1</td>
<td>Thursday</td>
<td>TBD</td>
</tr>
<tr>
<td>12-Feb</td>
<td>3</td>
<td>Tuesday</td>
<td>Models with limited commitment</td>
</tr>
<tr>
<td>14-Feb</td>
<td>4</td>
<td>Thursday</td>
<td>Beyond limited commitment: adverse selection, moral hazard and their interaction</td>
</tr>
<tr>
<td>14-Feb</td>
<td>Rec 2</td>
<td>Thursday</td>
<td>TBD</td>
</tr>
<tr>
<td>19-Feb</td>
<td>President's Day</td>
<td>Tuesday</td>
<td></td>
</tr>
<tr>
<td><strong>Part 2: Micro data and tests of model underpinnings</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-Feb</td>
<td>5</td>
<td>Thursday</td>
<td>Measurement: financial accts hh to national levels</td>
</tr>
<tr>
<td>21-Feb</td>
<td>Rec 3</td>
<td>Thursday</td>
<td>TBD</td>
</tr>
<tr>
<td>26-Feb</td>
<td>6</td>
<td>Tuesday</td>
<td>Risk-sharing and Targeting</td>
</tr>
<tr>
<td>28-Feb</td>
<td>7</td>
<td>Thursday</td>
<td>Finance, CAPM</td>
</tr>
<tr>
<td>28-Feb</td>
<td>Rec 4</td>
<td>Thursday</td>
<td>TBD</td>
</tr>
<tr>
<td>5-Mar</td>
<td>8</td>
<td>Tuesday</td>
<td>Links to the macro literature: incomplete markets</td>
</tr>
<tr>
<td>7-Mar</td>
<td>9</td>
<td>Thursday</td>
<td>Labor: intensive/extensive and aggregation</td>
</tr>
<tr>
<td>7-Mar</td>
<td>Rec 5</td>
<td>Thursday</td>
<td>TBD</td>
</tr>
<tr>
<td>12-Mar</td>
<td>10</td>
<td>Tuesday</td>
<td>Explicit Barriers and Obstacles</td>
</tr>
<tr>
<td><strong>Part 3: Welfare and the Evaluation of Impact: Reduced Form Econometrics and Structural Parameters</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14-Mar</td>
<td>11</td>
<td>Thursday</td>
<td>Program Evaluation</td>
</tr>
<tr>
<td>14-Mar</td>
<td>Rec 6</td>
<td>Thursday</td>
<td>TBD</td>
</tr>
<tr>
<td>19-Mar</td>
<td>12</td>
<td>Tuesday</td>
<td>Expanding Financial Service and Impact: Reduced Form to Structural Methods</td>
</tr>
<tr>
<td>21-Mar</td>
<td>13</td>
<td>Thursday</td>
<td>Discussion</td>
</tr>
<tr>
<td>21-Mar</td>
<td>Rec 7</td>
<td>Thursday</td>
<td>TBD</td>
</tr>
<tr>
<td>25-Mar</td>
<td>(First day of Spring Break)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Syllabus and Reading List:

Lecture 1: Introduction to the Course

Financial access, deepening, growth

Finance and macro stability

Some policy papers
- Levine (2011) “Regulating Finance and Regulators to Promote Growth”
- Dell’Ariccia, G. et al., 2012. Policies for Macrofinancial Stability: How to Deal with Credit Booms. *IMF Staff Discussion Note*, SDN/12/06.

Applied General Equilibrium Development Economics
- Tools
  - Computation: Yan Ji notes
- GIS
  - Thai GIS
  - China Data Center
- Data

Country-specific applications:
- Thailand
- Mexico

- Lecture Notes: CGE, DSGE
- Townsend, R.M. Insurance and Credit: Micro Financial Underpinnings for Entire Economies. IIES 50th Anniversary Lecture slides (annotated)

Lectures 2-4: General Equilibrium Modeling with Financial Frictions, with and without underlying tests

Lecture 2: Micro-founded Macro Models

Lecture 2, part 1: Occupational choice and limited commitment – theory with micro tests

Related Literature

Lecture 2, part 2: Risk-sharing, insurance and endogenous financial deepening
Related Literature


Lecture 2, part 3: Model Comparisons


Lecture 3: Growth, Inequality, TFP with Financial Imperfections (featuring limited commitment)


Related Literature


Lecture 4: Growth, TFP, International Capital Flows: Other frictions in financial intermediation (costly state verification, adverse selection, moral hazard)

Related literature

*Lectures 5-10: Micro data and tests of model underpinnings*

- Lecture Notes: Flow of funds

Related Literature
- Selected case studies
- Life-cycle graphs

- Ridhwan, M. et al., 2011. The regional impact of monetary policy in Indonesia, mimeo
- Overview of Flow of Funds Accounts, Marco Cagetti
- *A Macroeconomist's Wish List of Financial Data*, V.V. Chari
- *Empirical Application of a Flow of Funds Model in India*, Tomoe Moore & Christopher Green
Stockholm Lecture
CFSP Flow of Funds Accounts and Savings Workshop, April, 2012, conference summary


Related Literature

- Angelucci, M., de Giorgi, D., Rangel, M.A. and Rasul, I., 2009 “Village Economies and the Structure of Extended Family Networks”, mimeo, UCL.

Lecture 7: Capital Asset Pricing: Idiosyncratic and aggregate risk, mean variance frontiers, lack of insurance among the poor and modern corporations

Economies"


Lecture 8: Links to the Macro Literature: Panel data and models of smoothing (exogenous incomplete markets)


Related Literature

- Peters, M. Notes on Consumption

Lecture 9: Labor Supply: Intensive and Extensive Margin in Villages to Families, Lotteries, and Elasticities in Macro


Related Literature

- Chang, Yongsung, and Sun-Bin Kim. “Heterogeneity and Aggregation:


Lecture 10: Barriers to Sharing Risk (moral hazard, limited commitment):
Common Methods in Village Economies
- Kinnan, Cynthia, “Distinguishing barriers to insurance in Thai villages”

Related Literature

Lectures 11 and 12: Welfare and the Evaluation of Impact: Reduced Form Econometrics and Structural Parameters

Lecture 11: Program Evaluation: The Thai Million Baht Village Fund

Related literature

Lecture 12: From Reduced-Form to Structural Evaluation: Expanding Financial Infrastructure and Impact

Related literature
• Keane, Wolpin, “Empirical Applications of discrete choice dynamic programming models,” RED, 2009

**Lecture 13: Discussion, Research Proposals**