

# Introduction

Econ 1910 – Poverty and distribution in developing countries

Tarjei Havnes

# Plan for the course

What we are going to do:

1. Introduce theoretical models as ways of thinking about development issues
2. Show how we may understand whether these concepts are important in practice, and if so how important
3. Show alternative ways of measuring poverty and inequality

# Expectations

At the end of the course, you should be able to

1. calculate and critically assess some key measures of poverty, distribution and development, and summarize empirical facts
2. present and discuss some key models of development, growth and trade, and of economic structures in poor countries (families, labor markets, and credit markets)
3. understand the key problem of causality vs correlation in development economics

# Plan for the course

- ▶ 13 lectures (no lecture on Feb 19, March 19, April 1, April 16)
  - ▶ First part: Tarjei Havnes (ES 1132, Monday 9.30–10.30 am)
  - ▶ Second part: Anirban Mitra (ES 1016)
- ▶ 6 seminars (see the course web page for the schedule)
- ▶ Mandatory assignment: 3 of 5 essays you write for the seminars
  - ▶ deadline: Tuesday May 6 at 12:00 noon, submit in fronter
  - ▶ you must pass this to be allowed to sit the exam
- ▶ 3 hour exam on May 28 at 9.00 am (no resources allowed)
- ▶ Important messages will be posted on the course web page.
  - ▶ check the course web page before each lecture and before each seminar.

# Plan for the seminars

Seminar leaders: Martin Flatø and Marte Grønvold

- ▶ Assignments will combine exercises and short essays (not first seminar).
- ▶ You are all expected to prepare by making a real effort to solve the exercise and write/sketch a short essay
- ▶ Solve the exercise together in class.
- ▶ Distribute 4–5 essays in advance that you discuss in class.
  - ▶ 7,500–10,000 characters, i.e. 3–4 pages of text + potential graphs, equations etc.
- ▶ Tuesday May 6 at 12:00, 3 of your (revised) essays should be submitted as your mandatory assignment
  - ▶ submit a pdf-file in fronter, in a separate folder for each topic
  - ▶ indicate your name and character count at the top of each essay
  - ▶ need to pass to sit the exam

# Reading

Two core books:

- ▶ Abhijit Banerjee, Esther Duflo: *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*.
- ▶ Debraj Ray: *Development Economics*.
- ▶ We also provide some additional readings in lectures or seminars.

Note that material is often overlapping, with different focus:

- ▶ Ray focuses more on theory
- ▶ BD focus more on the empirics. Hopefully, they work well together

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You will need mathematics!

- ▶ but don't get lost in it – Ray is more technical than we need
- ▶ nothing harder than what we do in class should be necessary
- ▶ try reading through BD quickly first, and then come back to it later

# Mathematics refresher

Refresher course in Mathematics [in Norwegian only]

Auditorium 2 (Eilert Sundt's building)

- ▶ Monday January 13 at 12:15–14:00
- ▶ Thursday January 16 at 10:15–12:00
- ▶ Monday January 20 at 12:15–14:00
- ▶ Thursday January 23 at 10:15–12:00

Recommended booklets [available in Norwegian only] if you wish to repeat math from secondary school:

1. Sydsæter, Knut. 1993. Elementær algebra og funksjonslære.
2. Sommervoll, Dag Einar. 2009. Mattespettboka.
3. The app “Dragonbox 12+” covers all the algebra you need.

# Introduction

<http://www.mtv.com/videos/misc/61381/diary-of-angelina-jolie-and-dr-jeffrey-sachs.jhtml#id=1509772>

<http://www.youtube.com/watch?v=vzy8dafM89E>

# What are we talking about?

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    - ▶ PPP-adjustment (purchasing power parity)
    - ▶ India = 0.39, US = 1, NOR = 1.52
    - ▶ per day: Rps 27  $\Rightarrow$  1.1 USD  $\Rightarrow$  10.52 NOK

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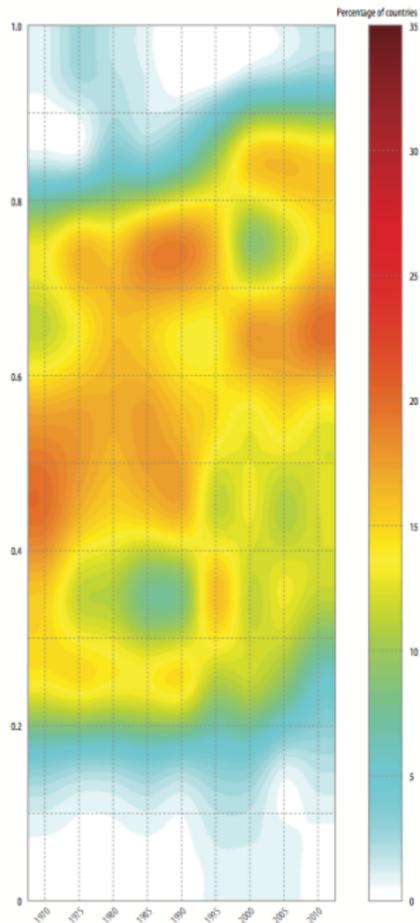
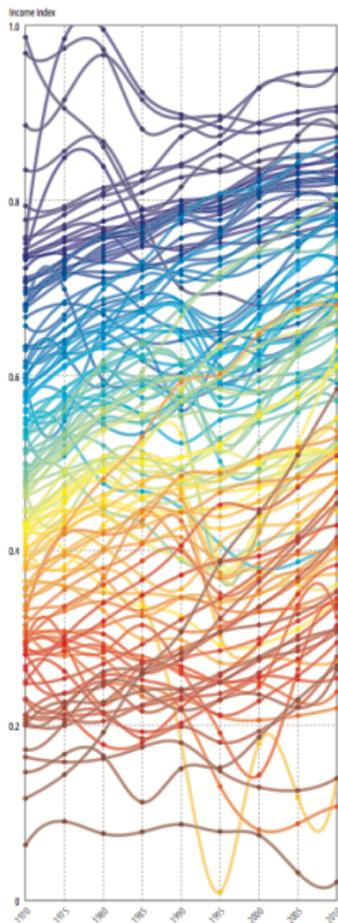
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- ▶ Globally, 20.6% live on less than 1.25 USD, 1,215 million people
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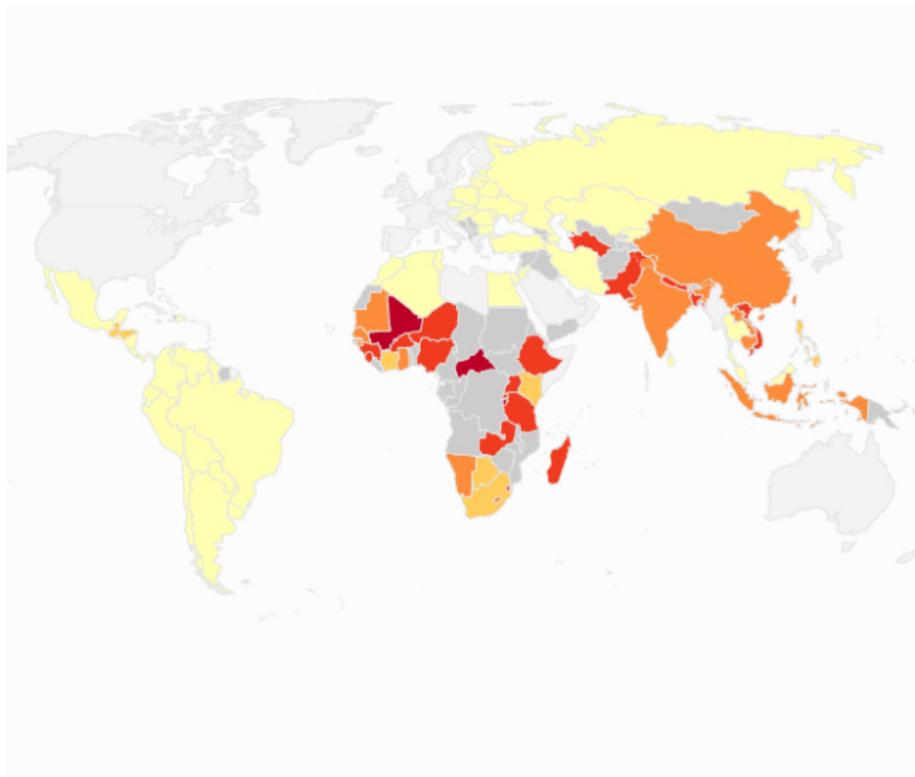
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  - ▶ Norway \$65,640; US \$51,749

URL: [World bank data visualizer](#)

# GDP, 1970 to 2010



# \$1.25 a day - 1995



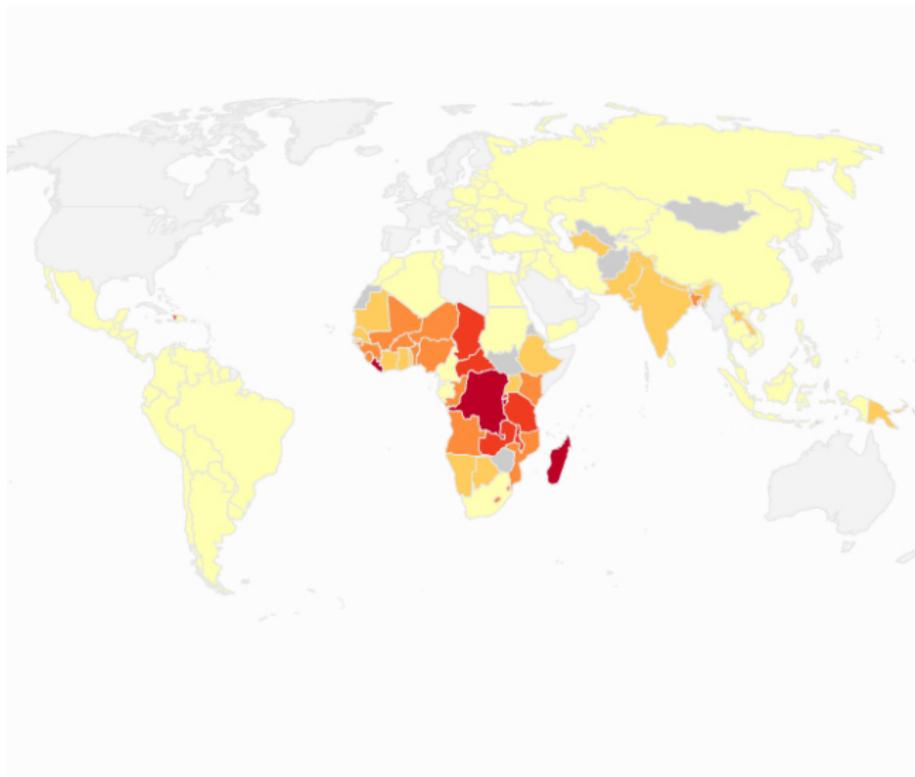
Comments:

Indicator: Poverty headcount ratio at \$1.25 a day (PPP) (% of population)

Year: 1994

no data 0 - 20.0 20.0 - 40.0 40.0 - 60.0 60.0 - 80.0 80.0 - 100

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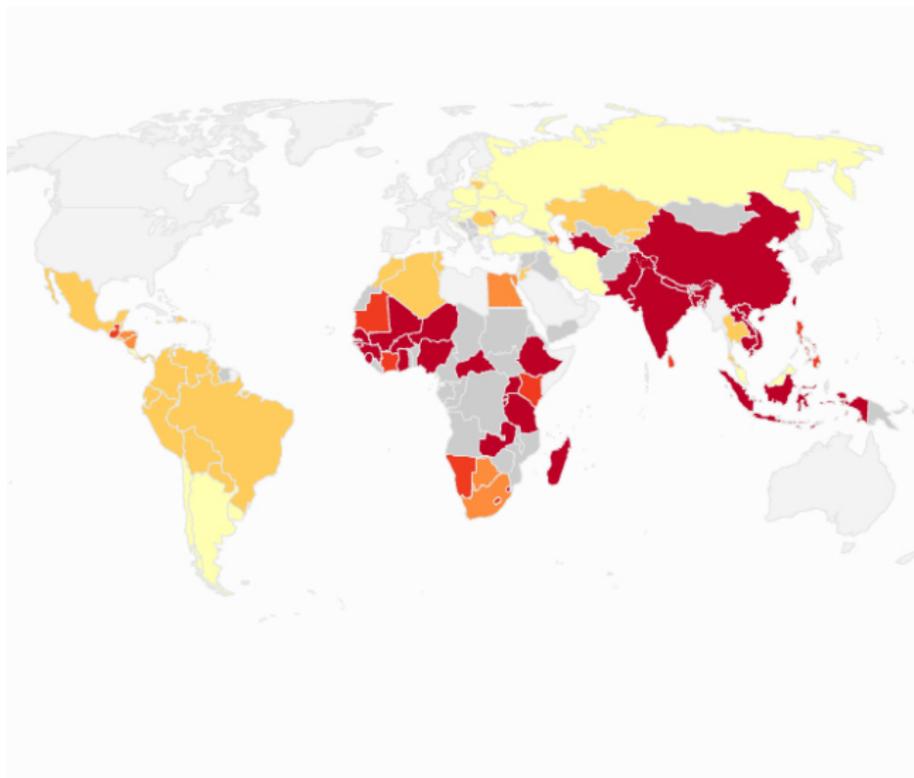
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## \$2.50 a day - 1995



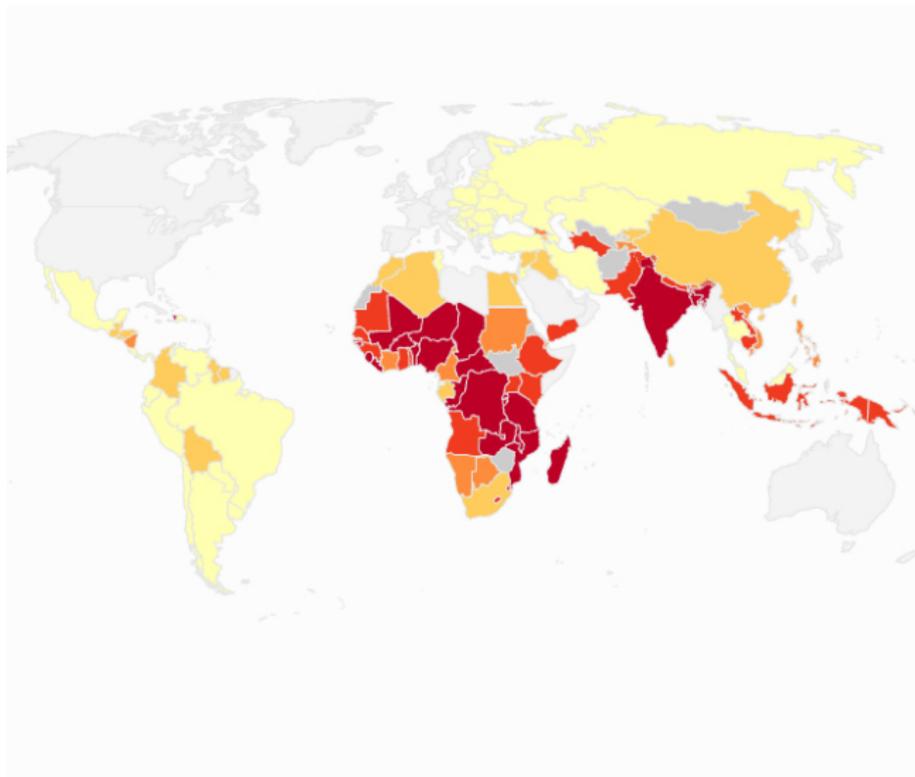
Comments:

Indicator: Poverty headcount ratio at \$2.5 a day (PPP) (% of population)

Year: 1994

no data 0 - 14.6 14.6 - 33.1 33.1 - 63.7 63.7 - 90.2 90.2 - 100

# \$2.50 a day - 2012



Comments:

Indicator: Poverty headcount ratio at \$2.5 a day (PPP) (% of population)

Year: 2012

no data 0 - 20.0 20.0 - 40.0 40.0 - 60.0 60.0 - 80.0 80.0 - 100

# What are we talking about?

But poverty is more than lack of income:

- ▶ Poor health: 9 million die before age 5, mainly of preventable disease
- ▶ Poor education: 50% of children enrolled in school in India cannot read a simple paragraph
- ▶ Poor quality of life: hours collecting water instead of playing, working, learning
- ▶ Difficulty to realize your ambition: lending for investments, insure against bad harvest

# Amartya Sen: Development as freedom

- ▶ **Functioning:** What a person values doing or being.
  - ▶ nourished, healthy, self-respect, expression
- ▶ **Capability:** A set of functionings a person may achieve.
  - ▶ this is a measure of freedom

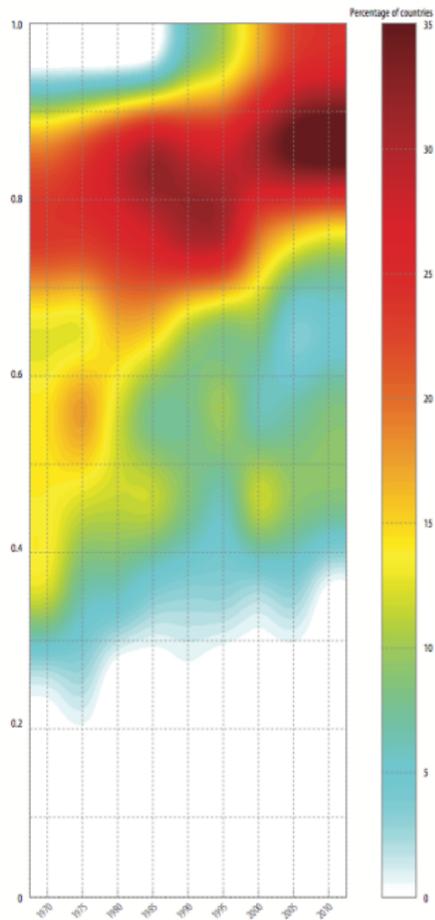
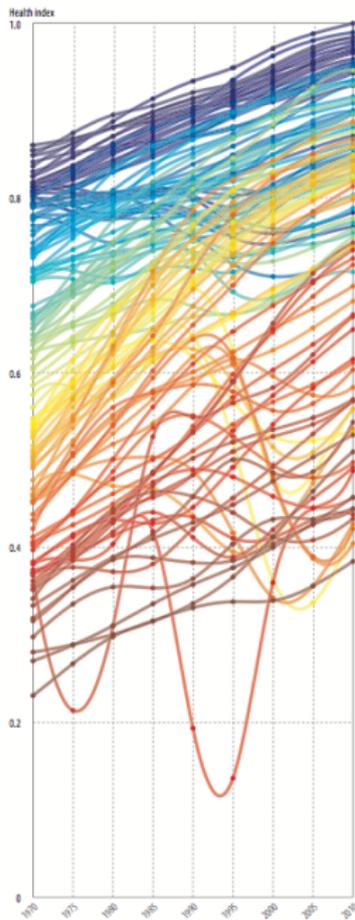
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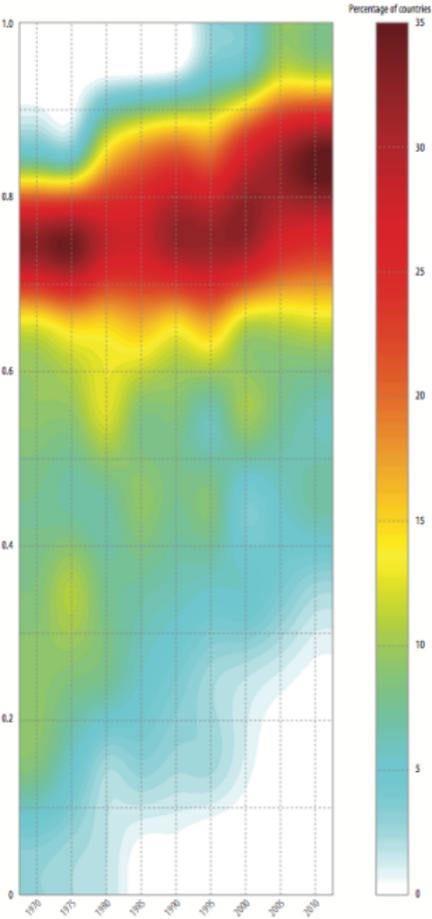
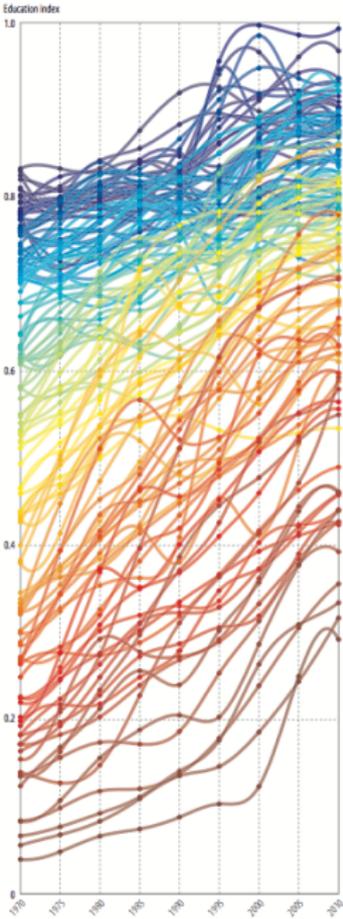
Sen argues that we should focus on capabilities rather than instrumental measures like income.

- ▶ In some way, PPP-adjustment already accepts this premise, though market prices and associated goods bundles may be a poor metric in many instances
- ▶ what is the market price on clean fishing waters?
- ▶ motivates looking far beyond traditional economic measures like income, trade, and investments
- ▶ also to focus on the small picture, since summary measures may miss important parts of the puzzle

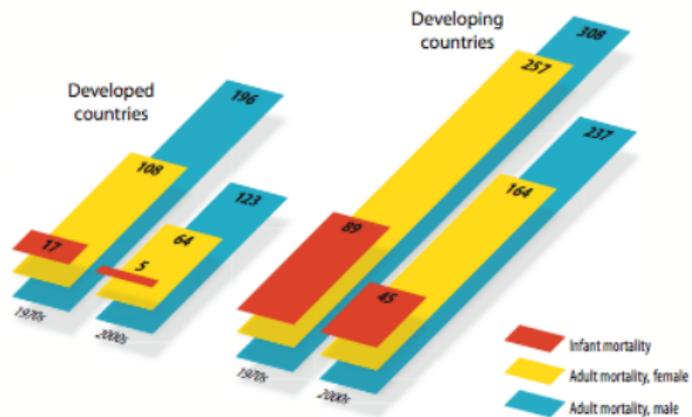
# Life expectancy, 1970 to 2010



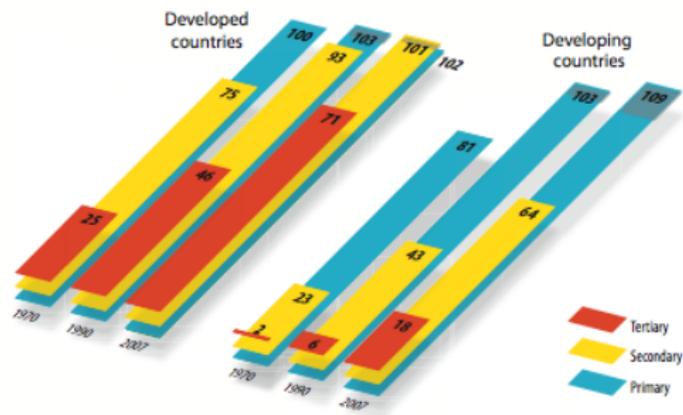
# Education, 1970 to 2010



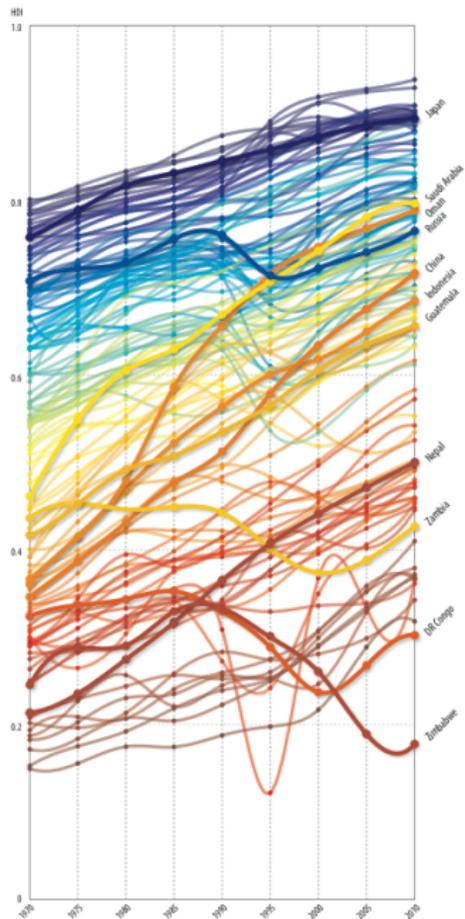
# Mortality



# School enrollment



# Human development index, 1970 to 2010



# The context of development

Developing countries are often characterized by,

- ▶ high population growth
- ▶ quite young population
- ▶ high agricultural activity
- ▶ high rates of rural-urban migration - large informal sector
- ▶ primary product exports
- ▶ weak institutions

To understand what may drive or hamper development, we need to understand the micro structures of developing countries, both in general and in each particular country.

# Plan for the course

We will look mostly at theories of underdevelopment, but will try to emphasize the shortcomings of these models. Remember that

- ▶ development policy is mostly a set of potential smaller interventions, and
- ▶ what we are interested in is whether these are efficient or not
- ▶ the development slogans are rarely useful

# Plan for the lectures

1. Introduction
2. Economic growth
3. Poverty traps; Nutrition, Education, Market size
4. Families: Fertility, gender, missing women
5. Inequality and poverty - measurement and evidence
6. Inequality and development, urban–rural
7. Trade
8. Agriculture – moral hazard
9. Risk and insurance – adverse selection
10. Banks and microcredit - moral hazard
11. Institutions - resource curse
12. Ethnicity, class and conflict
13. Wrap-up

## Related material

- ▶ Government of India Planning Commission, 2013. Press Note on Poverty Estimates, 2011–12. –  
[http://planningcommission.nic.in/news/press\\_pov2307.pdf](http://planningcommission.nic.in/news/press_pov2307.pdf)
- ▶ Ingrid Robeyns (2005) The Capability Approach: a theoretical survey, *Journal of Human Development*, 6:1, 93-117, DOI: [10.1080/146498805200034266](https://doi.org/10.1080/146498805200034266)
- ▶ Amartya Sen, 1999. *Development as Freedom*, Oxford University Press.