

Instructor: A. Oriana Montti

Email: amontti@pa.uc3m.es

Office Hours:

- In person: after class.
- Online: by appointment, please sign up using this [link](#).

Course Description.

This course introduces the field of Development Economics. It integrates analytical frameworks with empirical methods for policy-relevant analysis, while emphasizing the historical and institutional dimensions of economic development.

A defining characteristic of developing economies is the prevalence of interconnected market failures stemming from imperfect competition, asymmetric information, transaction costs, externalities, public goods, and coordination challenges. Addressing these failures often requires state intervention, which can be hindered by government failures such as rent-seeking, institutional capture, and collective action problems.

Because these distortions interact in complex, context-specific ways, development policy cannot rely on universal solutions. Instead, effective policy design demands careful understanding of local economic structures, institutional capacities, and uncertainty.

This course explores key families of market failures, including those in rural labor and land markets, environmental management, political systems, industrialization, and global economic integration. Students will develop the analytical and empirical skills necessary to evaluate development policies and outcomes.

Learning Objectives.

1. Acquiring the key analytical tools relevant to understanding current development challenges.
2. Developing the ability to diagnose context-specific developmental problems. This requires combining the pertinent theoretical mechanisms with historically determined empirical cases, adapting them to the natural, economic, and institutional context.
3. Practicing the skills of processing and transmitting academic information and translating it at the policy-making level.

This course does not offer a “cookbook” of development solutions. It emphasizes that each development challenge is context-specific and rooted in its theoretical and institutional dynamics. Students will learn to recognize that effective policy responses

involve navigating complex trade-offs rather than universal formulas.

Organization of the classes.

Each session will address a specific development failure (or a family of failures). Meetings will be divided into 2 parts: a lecture and a student-led workshop.

Part 1. Weekly Lecture.

In the first part of the session (90 minutes), the instructor will introduce the major theoretical mechanisms associated with the weekly problem and provide a panoramic overview of their empirical relevance, including historical background.

Part 2. Weekly Workshop.

In the second part of the session (90 minutes), a team of students will prepare a presentation on the compulsory reading. The team responsible for the presentation will also organize and lead the discussion that will follow. Detailed instructions will be posted on Aula Global.

Students not presenting the week's compulsory reading should read it and post comments and questions about the paper on each week's forum on Aula Global to motivate the discussion. This will be part of your participation grade.

Part 3. Development Diagnostic Workshop.

In Week 6, each student will present a Development Diagnostic: an analytical project aimed at identifying the key constraints holding back sustainable development in a specific context (e.g., a region, country, or group of countries).

A well-executed diagnostic is essential for providing meaningful and context-sensitive policy advice. Because the causes of underdevelopment are complex and interconnected, there is rarely a single pathway toward development. This exercise challenges you to disentangle those relationships and identify the most binding constraints and opportunities for progress.

Detailed instructions will be posted on Aula Global.

Assessment.

Course attendance is compulsory. Course grades will be calculated based on the following components:

- Participation (15%).
- Group paper presentation (20%).
- Development Diagnostic presentation (30%).
- Final exam (35%).

The final exam will consist of one theoretical question regarding the topics covered in class, and two questions about your Development Diagnostic.

Calendar.

Session 1 - October 31st Introduction & Frictions in Rural Markets

Part 1: Welcome & Introduction

In this first part, we will introduce ourselves and the course. The instructor will introduce the general idea and potentially useful resources for the Development Diagnostic.

Compulsory reading: Rodrik, D. 2010. "Diagnostics before Prescription" *Journal of Economic Perspectives* 24 (3), pp. 33–44. [This reading will help you better understand the course spirit and the final course assignment.]

Part 2: Lecture

Introduction to Development. The Economic Lives of the Poor. Poverty Traps. Frictions in Rural Markets: Labor and Land.

Compulsory reading: Banerjee, Abhijit V., and Esther Duflo. "The Economic Lives of the Poor." *Journal of Economic Perspectives* 21.1 (2007): 141-168.

Session 2 – November 7th Development and the Environment

- Submit your topic for the Development Diagnostic presentation

Part 1: Lecture.

Natural resources and development. Externalities. Public Goods. Discount rate.

Part 2: Workshop.

Compulsory reading: Frank, E G, and A Sudarshan (2024), "The Social Costs of Keystone Species Collapse: Evidence from the Decline of Vultures in India", *American Economic Review*.

Session 3 – November 14th Political Economy of Development

Part 1: Lecture

State Failures. State Capture. Institutional frictions and persistence. Corruption.

Part 2: Workshop

Compulsory reading: Callen, M., Gulzar, S., Hasanain, A., Khan, M. Y., and Rezaee, A. (2023), "The political economy of public sector absence," *Journal of Public Economics*, 218: 104787.

Session 4 – November 21st Industrialization and Coordination Problems.

- Submit your first draft for the Development Diagnostic Presentation

Part 1: Lecture

The developmental potential of industry. Global Manufacturing Landscape. Coordination failures. Industrial Policies. ISI, EOI. Premature deindustrialization. Industrial districts.

Part 2: Workshop.

Compulsory Reading: Lall, S. M., and Lebrand, M. (2020) "Who wins, who loses? Understanding the spatially differentiated effects of the Belt and Road Initiative", Journal of Development Economics, 146, 102496.

Session 5 – November 28th Globalization

Part 1: Lecture

International trade. Global Value Chains. Foreign Direct Investment.

Part 2: Workshop.

Compulsory Reading: Amit Khandelwal, "Trade and Development in a Fracturing World," NBER Working Paper 34333 (2025),

Session 6 – December 5th

Part 3: Presentation of Development Diagnostics.

Literature and Useful Resources.

The website <https://voxdev.org/> disseminates cutting-edge research on development economics in an accessible way (as blog entries). Students are strongly encouraged to sign up for the site's newsletter.

Another useful resource is [Econimate](#), a YouTube channel aimed at making economics research accessible and engaging, presenting animated videos of academic papers.

Background readings for each topic can be found in three major books:

-Ray, D. (1998). *Development Economics*, Princeton University Press, Princeton. Still the best single introduction to Development Economics. A great balance of range and depth of theoretical topics covered. At the same time, it is very accessible. Although it is ageing well, it does not include the latest contributions.

-Bardhan, P. and Udry, C. (1999). *Development Microeconomics*, Oxford University Press, Oxford. Short and complete, but also the least accessible, being quite advanced. Requires a previous background in some topics. Among the three basic references, it is the one with the highest level of formalization. But its rigor pays off!

-De Janvry, A. and Sadoulet, E. (2015) *Development Economics. Theory and Practice*, Routledge, New York (2nd ed. 2021). The most up-to-date introduction to the discipline. Extensive coverage but lacks some detail for certain topics. Includes useful discussions of a wide range of recent empirical contributions.

In addition to selected chapters from these books, the instructor will provide additional background reading for each topic, often literature reviews and empirical papers from development journals and, occasionally, reports and case studies from international organizations (such as UNDP, UNCTAD, UNIO, FAO, IMF, WB, etc.).

Other useful resources are the papers from Elsevier's Handbook of Development Economics and from the Annual Review of Economics.

Below you can find an additional suggested reading list organized by lecture topics.

Additional reading list.

- [Topic 1: Frictions in Rural Markets \(Labor and Land\).](#)

Background readings (optional):

Balboni, C., Bandiera, O., Burgess, R., Ghatak, M. and Heil, A. (2022) "Why do People Stay Poor?", in *Quarterly Journal of Economics*, 137 (2), pp. 785-844.

Ray (1998) Ch. 11 'Markets in Agriculture: An Introduction', pp. 403-414, Ch. 12 'Land',

pp. 413-481, and Ch. 13 'Labor', pp. 483-527.

Bardhan and Udry (1999), Ch. 4 'Fragmented Markets: Labour', pp. 33-48, Ch. 5 'Migration', pp. 49-59, and Ch. 6 'The Rural Land Market', pp. 60-75.

De Janvry and Sadoulet (2021), Ch. 10 'The Economics of Farm Households', pp. 257-277, and ch. 12 'Labor and Migration', pp. 301-325.

- Topic 2: Environmental Failure and Externalities.

Background readings (optional):

Greenstone, M., and Jack, B. K. (2015) "Envirodevonomics: A Research Agenda for an Emerging Field", *Journal of Economic Literature*, p. 5-42.

Bardhan and Udry (1999), Ch. 13 'Environment and Development', pp. 168-181.

De Janvry and Sadoulet (2021), Ch. 15 'Sustainable Development and the Environment', pp. 379-401.

Further empirical readings (optional):

Henderson, J V, A Storeygard, and U Deichmann (2017), "Has climate change driven urbanization in Africa?" *Journal of Development Economics* 124: 60-82.

Liu, M Y, Y. Shamdasani, and V Taraz (2023), "Climate change and labor reallocation: Evidence from six decades of the Indian Census", *American Economic Journal: Economic Policy*, 15(2), pp. 395-423.

- Topic 3: Political Economy of Development.

Background readings (optional):

World Bank (2017). World Development Report 2017: Governance and the Law. Washington, DC: World Bank.

Bardhan and Udry (1999), Ch. 17 'Institutional Economics and the State in Economic Development', pp. 217-236.

De Janvry and Sadoulet (2021) Ch. 16 'Common Property Resources and Determinants of Cooperation', pp. 402-418, Ch. 20 'Institutional Innovations and Development', pp. 503-517, and Ch. 21 'Political Economy and the Role of the State', pp. 518-545.

Hayami, Y. (2009) "Social Capital, Human Capital, and the Community Mechanism. Toward a Conceptual Framework for Economists", *Journal of Development Studies*, 45(1), pp. 96-123.

Further empirical readings (optional):

Abeberese, A B, P Barnwal, R Chaurey and P Mukherjee (2023), “[Democracy and firm productivity: evidence from Indonesia](#)”, *The Review of Economics and Statistics*, 105 (3), pp. 713-722.

Miguel, E. and Roland, G. (2011) “The long-run impact of bombing Vietnam”, *Journal of Development Economics*, 96, pp. 1-15.

- [Topic 4: Industrialization and Coordination Problems.](#)

Background readings (optional):

Hallward-Driemeier, Mary C.; Nayyar, Gaurav. “Trouble in the making? The future of manufacturing-led development” (English). Washington, D.C.: World Bank Group.

<http://documents.worldbank.org/curated/en/720691510129384377>

Bardhan and Udry (1999), Ch. 15 ‘The Dual Economy’, pp. 196-206, and Ch. 16 ‘Intersectoral Complementarities and Coordination Failures’, pp. 207-216.

De Janvry and Sadoulet (2021), Ch. 7 ‘International Trade and Industrialization Strategies’, pp. 190-218.

Ray (1998) Ch. 5 ‘History, Expectations and Development’, pp. 131-167.

Further empirical readings (optional):

Imbert, C, M Seror, Y Zhang, and Y Zylberberg (2022), “Migrants and Firms: Evidence from China”, *American Economic Review* 112 (6): 1885-1914

Liu, E (2019), “Industrial policies in production networks,” *The Quarterly Journal of Economics* 134(4): 1883-1948.

Lane, N. (2023) “Manufacturing Revolutions - Industrial Policy and Industrialization in South Korea”, *Quarterly Journal of Economics*.

Fan, J., and Zou, B. (2021) “Industrialization from scratch: The ‘Construction of Third Front’ and local economic development in China’s hinterland”, in *Journal of Development Economics*, 152.

- [Topic 5: Globalization.](#)

Background readings (optional):

World Bank. 2020. World Development Report 2020: “Trading for Development in the Age of Global Value Chains.” © World Bank. <http://hdl.handle.net/10986/32437>
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Bardhan and Udry (1999), Ch. 14 'Trade and Development', pp. 182-195.

Ray (1998) Ch. 16 'International Trade', pp. 623-646, Ch. 17 'Trade Policy', pp. 647-709, and Ch. 18 'Multilateral Approaches to Trade Policy', pp. 711-756.

Further readings (optional):

Barrett et al. (2022) "Agri-food Value Chain Revolutions in Low- and Middle-Income Countries", *Journal of Economic Perspectives*, 60(4), pp. 1316–1377.

Alfaro-Ureña et al. (2022) "The Effects of Joining Multinational Supply Chains. New Evidence from Firm-to-Firm Linkages", *Quarterly Journal of Economics*, 137 (3), pp. 1495-1552.

Abebe, G, M McMillan and M Serafinelli (2022), "Foreign direct investment and knowledge diffusion in poor locations", *Journal of Development Economics* 158.

Further empirical readings (optional):

Henderson, J V, A Storeygard, and U Deichmann (2017), "Has climate change driven urbanization in Africa?", *Journal of Development Economics* 124: 60-82.

Liu, M Y, Y Shamdasani, and V Taraz (2023), "Climate change and labor reallocation: Evidence from six decades of the Indian Census", *American Economic Journal: Economic Policy*, 15(2), pp 395-423.