

## Syllabus

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**Course: Applied Macroeconomics**  
**Professor: Luciene Torres de Mello Pereira**

### FIRST SEMESTER, 2021

#### PROGRAM

This course covers recent research topics in economic growth and development, emphasizing the role of institutions and financial development on growth and economic development. The course discusses applications to Brazil.

#### BIBLIOGRAPHY

The topics for the lectures are as follows:

1. The problem of economic development and misallocation
  - <sup>1</sup>Acemoglu, D., S. Johnson and J. A. Robinson (2001). “The Colonial Origins of Comparative Development: An Empirical Investigation”, *American Economic Review* 91: 1369- 1401.
  - Acemoglu, D. and S. Johnson (2005). “Unbundling Institutions”, *Journal of Political Economy* 113 (5): 949-995.
  - \*Banerjee, A. and E. Duflo (2005). “Growth Theory through the Lens of Development Economics”, *Handbook of Development Economics*, Vol. 1a. Amsterdam: Elsevier, pp. 473-552
  - \*Baqae, D. and Farhi, E. (2020). “Productivity and Misallocation in General Equilibrium”, *Quarterly Journal of Economics*, *forthcoming*.
  - Bils, M., P. J. Klenow and C. Ruane (2020). “Misallocation or Mismeasurement?”, Working paper.
  - Caselli, F (2005). “Accounting for Cross-Country Income Differences”, *Handbook of Economic Growth*.
  - \*\*Haltiwanger, J., R. Kulick and C. Syverson (2019). “Misallocation Measures: The Distortion that Ate the Residual”, Working paper.
  - \*\*Hsieh and Klenow (2009). “Misallocation and Manufacturing TFP in China and India,” *Quarterly Journal of Economics*, 124: 1403-1448.
  - \*Hsieh and Klenow (2014). “The Life Cycle of Plants in India and Mexico,” *Quarterly Journal of Economics*, 129: 1035-1084.
  - \*Restuccia and Rogerson (2008). “Policy Distortions and Aggregate Productivity with Heterogeneous.

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\*\* Papers chosen to be presented by the professor.

## 2. Microfoundation of borrowing constraint

- Aleem, I. (1990). “Imperfect Information, Screening, and the Costs of Informal Lending: A Study of Rural Credit Market in Pakistan”, *The World Bank Economic Review*, 4 (3): 329-349.
- \*\*Banerjee, A. (2002): “Contracting Constraints, Credit Markets and Economic Development”, In: *Advances in Economics and Econometrics: Theory and Applications*, Edited by M. Dewatripont, L. P. Hansen and S. J. Turnovsky, Cambridge University Press.
- \*Banerjee, A. and E. Duflo (2010). “Giving Credit Where it is Due”, *Journal of Economic Perspectives*, 24(3): 61–80.
- Ghosh, P., D. Mookherjee and D. Ray (2000): “Credit Rationing in Developing Countries: An Overview of the Theory”, Chapter 11 in *Readings in the Theory of Economic Development*, edited by D. Mookherjee and D. Ray, London: Blackwell.
- \*Banerjee and Duflo (2014). “Do Firms Want to Borrow More? Testing Credit Constraints Using a Directed Lending Program”, *Review of Economic Studies*, 81 (2): 572-607.
- Banerjee and Munshi (2004). “How Efficiently Is Capital Allocated? Evidence from the Knitted Garment Industry in Tirupur”, *Review of Economic Studies*, 71 (1): 19-42.
- \*de Mel, S., McKenzie, D. and C. Woodruff (2008). “Returns to Capital in Microenterprises: Evidence from a Field Experiment”, *Quarterly Journal of Economics* 123 (4): 1329-1372.
- \*Karlan, D. and J. Zinman (2009). “Observing Unobservables: Identifying Information Asymmetries With a Consumer Credit Field Experiment,” *Econometrica*, 77 (6): 1993- 2008.

## 3. Aggregate effects of financial frictions: Theory and evidence

- \*Antunes, A., T. Cavalcanti and A. Villamil (2008). “The Effects of Financial Repression & Enforcement on Entrepreneurship and Development, *Journal of Monetary Economics*, 55 (2): 278-297.
- \*Banerjee and Moll (2010). “Why do Misallocation Persist?” *American Economic Journal: Macroeconomics*, 2(1): 189-206.
- \*\*Buera, Kaboski and Shin (2011). “Finance and Development: A Tale of Two Sectors” *American Economic Review*, 101(5): 1964-2002.
- \*Buera, K. and Y. Shin (2013). “Financial Frictions and the Persistence of History: A Quantitative Exploration”, *Journal of Political Economy*, 121 (2): 221-272
- Castro, R., G. L. Clementi and G. MacDonald (2004). *Investor Protection, Optimal Incentives, and Economic Growth*, *Quarterly Journal of Economics*, 119 (3).
- \*Cavalcanti, T., J. Kaboski, B. Martins and C. Santos (2019). “Dispersion in Financing Costs and Development”, Working paper.
- \*Demirguc-Kunt, A. and R. Levine (2008). “Finance, Financial Sector Policies, and Long-Run Growth”, *Commission on Growth and Development, Working Paper No. 11*, The World Bank.
- \*Galor, O. and J. Zeira (1993). “Income Distribution and Macroeconomics”, *Review of Economic Dynamics*, 60 (1): 35-52.

- \*Itskhoki, O. and B. Moll (2019). “Optimal Development Policies with Financial Frictions”, *Econometrica*, 87 (1): 139-173
- Levine, R., N. Loayza and T. Beck (2000). “Financial Intermediation and Growth: Causality and Causes,” *Journal of Monetary Economics* 46.
- Levine, R (2005). “Finance and Growth: Theory and Evidence,” *Handbook of Economic Growth*.
- \*Midrigan and Xu (2014). “Finance and Misallocation: Evidence from Plant-Level Data,” *American Economic Review*, 104(2): 422-458.
- Raghuram, G. R. and L. Zingales (1998). “Financial Dependence and Growth”, *American Economic Review*, 88 (3): 559-586.

#### 4. The role of the government in the credit market and in the labor market

- \*\*Antunes, A., T. Cavalcanti and A. Villamil (2014). “The Effects of Credit Subsidies on Development”, *Economic Theory*, 58(1): 1-30.
- Bradley, Postel-Vinay and Turon (2017). ‘Public Sector Wage Policy and Labor Market Equilibrium: A Structural Model’, *Journal of the European Economic Association*.
- \*Cavalcanti, T. and P. Vaz (2016). “Access to Long-Term Credit and Productivity of Small and Medium Firms: A Causal Evidence, *Economics Letters*, 21-25.
- \*Jaume, David (2017). ‘The Labor Market Effects of an Educational Expansion. A Theoretical Model with Applications to Brazil’, *Working Paper - JMP Cornell*.
- \*McKiernan, K. (2019). “Social Security Reform in the Presence of Informality”, *Working paper*
- Stiglitz, J. (1994). “The Role of the State in Financial Markets”, *Proceedings of the World Bank Annual Conference on Development Economics 1993*.
- \*Sapienza, P. (2004). “The Effects of Government Ownership on Bank Lending”, *Journal of Financial Economics* 72: 357-384.
- La Porta, R., F. Lopez-De-Silanes and A. Shleifer (2002). “Government Ownership of Banks”, *Journal of Finance*, LVII (1): 265-301.

#### 5. Misallocation of talents, specific policies and endogenous productivity

- Alvarez, Benguria, Engbom and Moser (2018). ‘Firms and the Decline in Earnings Inequality in Brazil,’ *American Economic Journal: Macroeconomics*, 10(1): 149-189.
- \*Antunes and Cavalcanti (2007). “Start Up Costs, Limited Enforcement, and the Hidden Economy,” *European Economic Review* 51(1): 203-224.
- \*\*Cavalcanti and dos Santos (2015). “(Mis)Allocation of an Overpaid Public Sector”, *Revised & resubmitted Journal of the European Economic Association*.
- Cavalcanti and Tavares (2015). “The Output Costs of Gender Discrimination: A Model Based Macroeconomic Estimate.”, *Economic Journal*, 126 (590): 109-134.
- \*Gomes, D., F. Iachan and C. Santos (2019). “Labor Earnings Dynamics with a Large Informal Sector”, *Working paper*.
- \*Guner, Ventura, and Xu (2008), “Macroeconomic Implications of Size Dependent Policies,” *Review of Economic Dynamics*, 11(4): 721-44.

- \*Hsieh, Hurst, Jones and Klenow (2019). “The Allocation of Talent and U.S. Economic Growth”, *Econometrica*, 87(5): 1439-1474
- \*Lagakos, Moll, Porzio, Qian, and Schoellman (2018). “Life-Cycle Wage Growth Across Countries”, *Journal of Political Economy*, 126(2): 797-848
- Ugarov, A. (2019). “Talent Misallocation across Countries: Evidence from Educational Achievement Tests”, Working paper
- \*Ulyssea (2018). “Firms, Informality and Development: Theory and Evidence from Brazil,” *American Economic Review*, 108(8):2015-2047

## 6. Structural Transformation

- Duernecker, G and B. Herrendorf (2016). “Structural Transformation of Occupation Employment”, Working paper
- Berthold Herrendorf, B., Rogerson, R. and A. Valentinyi (2013) “Growth and Structural Transformation”, *Handbook of Economic Growth*
- \*Bustos, Caprettini and Ponticelli (2016). ‘Agricultural Productivity and Structural Transformation. Evidence from Brazil,’ *American Economic Review*, 106 (6): 1320-1365.
- Bustos, Garber, and Ponticelli (2017). ”Capital Allocation Across Sectors: Evidence from a Boom in Agriculture,” Working Paper.
- \*\*\*Duarte, M. and D. Restuccia, (2010). “The Role of the Structural Transformation in Aggregate Productivity” *Quarterly Journal of Economics*.
- Herrendorf, B. and A. Valentinyi (2012). “Which Sectors Make Poor Countries so Unproductive?”, *Journal of the European Economic Association*, 7 (2): 323-341
- Herrendorf, B. and T. Schoellman (2018). “Wages, Human Capital, and Barriers to Structural Transformation”, *American Economic Journal: Macroeconomics*, 10 (2): 1-23.
- \*\*\*Monge-Naranjo, A., P. Cavalcanti and L. Pereira (2019). “Of Cities and Slums”, Revision requested, *Journal of Political Economy*

## GRADING

### **Mock referee report of a paper (homework assignment 1, individual task): 20%**

A referee report should contain:

- A one-half page to one page summary of the paper. The summary should not simply repeat the abstract. If there is a key equation in the paper, put it in the summary with the relevant context. The summary should also include an assessment of the paper’s contribution to the literature.
- Two to four pages of analysis of the paper. What did you like, what could be improved, and what did the authors just get wrong? Make your report a stand alone document, repeating key arguments or equations from the paper as necessary before praising or critiquing them.

**Presentation of a paper of your choice to the class (group task, 50 min. with questions): 20%**

Tips for the presentation can be found on:

<https://sites.google.com/site/bertholdherrendorf/presentation-tips>

**Presentation of your paper's idea (group task): 20%**

Tips for the presentation can be found on:

<https://sites.google.com/site/bertholdherrendorf/presentation-tips>

**Writeup of paper proposal (homework assignment 2, group task): 30%**

The purpose of making the assignment a paper proposal is that I would rather you get 50% of the way toward a project you are excited to continue after the course finishes than you complete a project in the timeframe of the course to which you will never return. You will formulate an original research idea, develop a practical plan for executing the idea, and take initial steps in the execution. The paper may take the following form:

1. Introduction: What is the question and why is the question of interest?
2. Literature Review: How does your paper fit into the broader literature?
3. Theoretical Motivation: This could be actual theory or just a sketch of the relevant theory that underlies your question.
4. Data: What data would you use to answer/address this question? Why are the data well suited to the question?
5. Methodology: How would you use the data/model to answer your question? Be explicit about identification and causality, keeping in mind that the same set of empirical facts can often support many theories.
6. Falsification Tests: What other specifications, tests and investigations could either bolster or cast doubt upon the primary tests of your hypotheses?
7. Preliminary Results: The extent of the results provided will differ across students based on the project and discussions with me.

**Class participation: 10%**

**PROFESSOR - EMAIL**

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