The Institute for Economic Development

Research Review

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BOSTON UNIVERSITY

The Institute for Economic Development (IED) is a research center within Boston University's Department of Economics focusing on the economic problems of developing countries.

Who Is Punishing Corrupt Politicians – Voters Or The Central Government? Evidence From The Brazilian Anti-Corruption Program

Fernanda Brollo
Discussion Paper 168

Corruption at the local level poses an important obstacle to economic development. Acknowledging this, governments in a growing number of developing countries have implemented anti-corruption programs that aim to increase political accountability and improve public-sector management at the local level. When corruption at the local level can be detected by the central government and is revealed to voters, the incumbent mayors' probability of re-election should decrease if the corruption revealed is greater than voters' prior beliefs. However, in developing countries, local accountability could be hampered by high illiteracy rates; therefore, dissemination of corruption information may have little effect on election outcomes for corrupt incumbents. Also, when compensated with an adequate level of public goods or service delivery, voters may turn a blind eye to corruption. On the other hand, it is plausible that a national government, in promoting an anti-corruption program, will reduce federal resources transferred to those local administrations that are found to be corrupt.

This paper investigates the channels through which the Brazilian anti-corruption program acts, i.e. dissemination of corruption information among voters or reduction of federal resources transferred to more corrupt local administrations. Analyses show that the central government reduced the amount of transfers after the release of audit reports to more corrupt municipalities. Municipalities with many corruption violations reported are associated with lower per-capita income levels, lower literacy rates, and a higher percentage of people living in rural areas. Thus, the analysis of the mechanisms on which this anti-corruption program acts is crucial. If local accountability is effective, i.e. if voters are punishing corrupt politicians at the ballots because of the dissemination of corruption information, the decrease in the amount of infrastructure transfers to more corrupt municipalities might not be necessary and may actually hurt poor communities.

The exogenous timing of the release of the audit reports paired with the timing of federal transfers and its institutional scheme makes it possible to disentangle these channels. There is evidence that the effect of the dissemination of corruption information fades with time. On the other hand, the reduction of federal transfers to municipal administrations with corruption violations reported in the audit reports has a relevant impact on the incumbent's probability of re-election, when this reduction can be perceived by voters before the municipal elections. However, incumbency advantages might help corrupt re-elected mayors in getting out of the punishment phase. The author finds that the central government keeps punishing municipalities with many violations reported even when a new mayor is elected. This unnecessary punishment may have undesired social welfare implications, especially when corruption at the local level is associated with poorer areas. Moreover, it could create an incentive to voters to re-elect corrupt incumbent mayors in future elections.

Forests To The People: Decentralization And Forest Degradation In The Indian Himalayas

Jean-Marie Baland, Pranab Bardhan, Sanghamitra Das and Dilip Mookherjee
Discussion Paper 169

Management of common property resources such as forests, fisheries and irrigation systems has become a central issue in development economics and policy. This owes both to the high degree of reliance of the poor in rural communities in developing countries on these resources, as well as concerns for environmental sustainability. While there are many plausible causes of degradation of these resources such as population pressure, economic growth, and commercial exploitation, an important determinant is the nature of property rights and control mechanisms. It is frequently argued that excessive state control and management of such resources have contributed to degradation of common property resources. This suggests the need for policies that allow local communities to manage these resources themselves.

To test this theory, the authors compare the effectiveness of Van Panchayats (VPs) – community forest councils – versus the state forest department on maintaining forest conditions in Utttaranchal, India. They use a unique dataset which expands on the range of dimensions of forest quality measures used in existing studies. First, the dataset includes detailed ground-level measures of forest quality conducted by trained ecologists, in contrast to perception-based measurements by local community members or aerial satellite images. Ground-level measurements allow the authors to have five different measures of forest quality: canopy cover, height, girth and species of trees, lopping and regeneration rates. Second, the forest surveys are complemented by household surveys and in-depth interviews with the local population regarding firewood and fodder collection. For example, local residents were asked the collection time per bundle of firewood; higher responses would imply more severe forest degradation.

Since more degraded forests have higher chances of being converted to VP forests, looking at raw differences between degradation levels of VP and non-VP forests would understate the benefits of VP management. The authors thus control for forest geography, intrinsic village characteristics, and cross-forest spillovers in their empirical analysis. Doing so, they find that an average tree in VP forests is approximately 20 percent less lopped compared to state managed forests. Further, the lopping differences are greater the longer the forest has been under VP management. They also find that proximity to VP forests is associated with significantly lower use of firewood. Their results are consistent with the hypothesis that more degraded forests are more likely to be converted to VP forests, and VP management subsequently improves forest quality, bringing them back on par with other forests.

A Dynamic Incentive-Based Argument For Conditional Transfers

Dilip Mookherjee and Debraj Ray
Discussion Paper 170

This paper examines the question of whether conditional or unconditional income transfers are more effective in reducing poverty. Economists have traditionally favored unconditional transfers, on the basis of a classical assumption of consumer sovereignty. More generally, the argument is that if the poor are no more inclined to behave against their own self-interest than the non-poor, the poor are the best judge of their own well-being.

Nonetheless, there are concerns that unconditional transfers will generate persistent dependence of the poor on the welfare system. Further, several anti-poverty programs that utilize conditional transfers, such as Progresa in Mexico, and the Food for Education program in Bangladesh; have been successful in raising school enrollment, family health, and reducing child labor.

The authors address this dichotomy of opinions by providing a theoretical model that supports the usage of conditional transfers. Unlike conventional static models of taxation a la Mirrlees which assume that the distribution of skill is exogenous, they employ a model of skill accumulation in an overlapping generations setting with imperfect credit markets. In this setting, parents must pay for their children's education by sacrificing current consumption. The long run purpose of an anti-poverty scheme can then be described as the promotion of incentives for the current poor and their descendants to acquire skills that will enable them to escape poverty in the long run.

The authors start by analyzing a simple setting in which there are only two occupations – skilled and unskilled. No education is required to enter the unskilled occupation, whereas education is required for the skilled occupation. Education costs are exogenous and equal for all. The skill premium in wages depends on the proportion of households that are skilled. The authors then compare the long-run effects of unconditional and conditional transfers, funded by taxes collected from skilled households. They find that unconditional transfers tend to reduce investment in human capital, per capita output and consumption in the long run, while conditional transfers lead to opposite results. This is because unconditional transfers create a 'welfare magnet' effect that reduces incentives to citizens to engage in costly investments in skill. The increased taxes consequent on acquiring skills, as well as the reduced eligibility for transfers outweigh favorable income effects of the transfers on the ability of citizens to invest. These adverse incentive effects are avoided if transfers are conditioned on investments in children's human capital by providing investment incentives directly. The authors subsequently confirm that the results extend to a setting with a continuum of occupations.

Political Participation, Clientelism And Targeting Of Local Government Programs: Analysis Of Survey Results From Rural West Bengal, India

Pranab Bardhan, Sandip Mitra, Dilip Mookherjee and Abhirup Sarkar
Discussion Paper 171

A critical aspect of successful functioning of a democracy is its capacity to induce elected officials to be accountable to citizens. Accountability pressures depend largely on how citizens vote, exercise voice and receive information about the actions of officials. Without such pressures, politicians have little incentive to support policies in the public interest and governments may become corrupt. Uneven patterns of political participation across different socio-economic groups could thus be a powerful cause of perpetuation of social and economic inequalities.

This paper addresses the relationship between political participation and local governance in a developing country, based on a rural household survey in West Bengal, India. Using measures such as voter turnout, awareness, and attendance at political meetings, the authors present an empirical analysis of patterns of political participation in local governance across socio-economic categories in rural West Bengal. They find generally high levels of political participation, with the main determining factors of participation being education, gender, and immigrant status, rather than wealth or caste.

The authors then relate these patterns to targeting of government services. They find little evidence that gram panchayats (GP) – local governments at the lowest level – discriminated on the basis of wealth, education, caste, or political partisanship in allocating benefits within villages. However, they find considerable biases in benefits administered across villages by upper levels of government. Villages with a higher proportion of landless households received fewer benefits overall, of which a lower share was allocated to the landless. These results suggest greater accountability at the GP level than at higher levels of government.

Finally, the authors examine voting patterns to better understand the nature of electoral pressures and sources of incumbency advantage of the Left Front coalition, which historically dominated in West Bengal local government elections but has lost some of its hold in recent years. They find some evidence of clientelism: the likelihood of an individual voting Left was correlated with receipt of short-term benefits from programs (such as employment or relief programs) administered by previous Left Front-dominated local governments. Further, poorer and socially disadvantaged groups within a village were more inclined to vote Left. The support for the Left was also greater in areas with a higher incidence of agricultural occupations. The results could help explain why the political success of the Left has been declining recently. Increasing urbanization and stagnation in agricultural yields have brought about a decline in the importance of agricultural occupations. At the same time, rising education and living standards have reduced their vulnerability to personal shocks and subsequent dependence on local governments for help in coping with such shocks.

Trade Liberalization And Occupational Choice

Paola Conconi, Patrick Legros, Andrew F. Newman

Discussion Paper 172

Recent decades have witnessed dramatic reductions in barriers to commodity trade and factor mobility around the world. There is evidence that falling barriers in product and factor markets have contributed significantly to widespread organizational restructuring such as mergers and outsourcing. Yet the mechanisms, by which trade liberalization can be a determinant of organizational change, as well as the effect of such restructuring on prices, quantities, and welfare, are not well understood.

In this paper, the authors embed a simple model of organization design in a two-country perfectly competitive trade model to examine the impact of trade liberalization on the ownership structure of firms. The authors adopt a setting in which trade is the result of differences in factor endowments between countries, where the factors of production are supplier firms run by managers. In their basic model, production requires the cooperation of two types of suppliers, which can either be integrated or engage in arm's-length relations (non-integration). The production technology involves the adoption of standards, i.e., output is higher when the two suppliers make similar decisions. However, managers have different preferences about the direction they ought to go, and it is costly to accommodate the other's approach. Under non-integration, managers make their decisions separately, and this may lead to inefficient production. Integration settles this problem by bringing in an additional party, called headquarters (HQ), which is motivated by monetary compensation to maximize the enterprise's output and hence enforces common standards between suppliers. However, integration is also costly, not only because the decisions it imposes will be costly to the managers, but also because HQ's relative lack of expertise or its own operating costs will reduce output.

In this setting, non-integration is chosen at "low" and "high" prices: at low prices, managers do not value the increase in output brought by integration since they are not compensated sufficiently for the high costs they have to bear; at very high prices, manager's value output so much that they are willing to concede in order to achieve coordination. Therefore vertical integration only occurs at intermediate prices. The ownership structure of firms will also be affected by the terms of trade in the supplier markets, which determine the division of surplus between managers. Relative to non-integration, integration is more flexible in its ability of to distribute surplus between suppliers, and will therefore tend to be adopted when the supplier market strongly favors one side or the other.

The authors obtain three main results. First, joint product and factor market integration leads to the convergence of organization design across countries. Second, even in the absence of factor movements, the price changes triggered by liberalization of product markets can lead to significant organizational restructuring within countries. Third, the removal of barriers to factor mobility can induce further organizational changes, sometimes adversely affecting consumers, which suggests a potential complementarily between trade policy and corporate governance policy.

Competitive Prices And Organizational Choices

Patrick Legros and Andrew F. Newman
Discussion Paper 173

The predominant model of the firm in the industrial organization literature is the classical one of the unitary profit maximizer. As a consequence, the effects of organizational design on market performance are generally absent from the analysis, and both the economic literature and policy practice have focused instead on the adverse effect of market power.

This paper addresses the gap in the literature by examining whether organizational decisions can affect consumer welfare in ways that do not involve market power. The authors consider a model where production of consumer goods requires the combination of two complementary suppliers, each consisting of a manager and his collections of assets. The production technology essentially involves the adoption of standards, i.e., output is higher when more decisions are in the same direction. However, managers may disagree on the direction because of different preferences. For example, a manager in engineering may favor elegant design, while a sales manager prefers user-friendliness.

Under non-integration, managers make their decisions separately, and this may lead to inefficient production. Integration solves this problem by bringing in a third party, which is motivated by monetary compensation to maximize the enterprise's output. The third party accomplishes this by enforcing a common standard. However, doing so generates two types of losses. First, this leads to high private costs for the initial managers. Second, using the third party to enforce coordination may have direct costs in terms of foregone output.

Whether to integrate is decided by managers in a competitive supplier market in which the two types of suppliers "match". The firms' output is sold in a competitive product market, wherein all firms and consumers are price-takers. At low prices, managers do not value the increase in output brought by integration since they are not compensated sufficiently for the high costs they have to bear. At very high prices, managers value output so much that they are willing to concede in order to achieve coordination. Therefore, the model predicts integration only emerges for intermediate levels of price, which will result in an inverted U-shaped relationship between product price and the degree of integration.

Moreover, organizational choices affect output: integration is more productive than non-integration at low prices, and less productive at high prices. Since shocks to industries affect product prices, reorganizations are likely to take place in coordinated fashion and be industry specific, a phenomenon consistent with the empirical evidence. Further, since the price range in which integration maximizes productivity generally differs from the one in which it maximizes managerial welfare, organizational choices will often be inefficient. The authors show that there are instances in which entry of low-cost suppliers can hurt consumers by changing the terms of trade in the supplier market, thereby inducing reorganizations that raise prices.namely, the tradeoff between risk sharing and incentives, while the other is the tradeoff between surplus extraction and incentives that underlies many models of credit market imperfections or efficiency wages. Results such as those in this paper can help with sorting out the empirical relevance of the two tradeoffs.

Segregation, Rent Control, And Riots: The Economics Of Religious Conflict In An Indian City

Erica Field, Matthew Levinson, Rohini Pande, and Sujata Visaria

Discussion Paper 174

Understanding the reasons for religious conflict in ethnically diverse countries is an important issue. Recent empirical Papers suggest that when a community suffers negative economic shocks, the consequent struggle for control over resources can help explain the eruption of historic tensions into acts of violence. In this paper, the authors further explore this link by studying the relationship between Hindu-Muslim violence and residential segregation within cities in India.

The authors combine detailed neighborhood-level data on religious diversity with data on the incidence of riot-related deaths in the city of Ahmedabad over a three-day period of intense religious conflict in 2002. Communal violence between Hindus and Muslims has become increasingly common in Indian cities over the last few decades, and the problem is especially acute in Ahmedabad. Correspondingly, residential arrangements in Ahmedabad are remarkably segregated – by 2002, 71 percent of the sample population lived in completely homogeneous neighborhoods, presumably because of increasing intolerance for living with members of another religion.

One striking fact that emerges from the data is that incidents of violence in the 2002 riots were more likely to occur in integrated neighborhoods. This is in contrast with the classic Schelling model of residential segregation, which predicts that integrated neighborhoods should be relative pockets of harmony, since individuals with the highest levels of tolerance locate in these places. The question that arises is: why would individuals with sufficiently strong animosity towards people unlike themselves so as to commit (or facilitate) acts of violence against them not have moved away but remained living among them in the first place?

The authors argue that a likely explanation for the observed spatial patterns of violence in this setting is weak tenancy rights in neighborhoods close to textile mills. Textile mills, which are now largely derelict, played a large role in Ahmedabad's economy until the mid-1970s, and employed both Hindus and Muslims. More significantly, they established subsidized tenement housing for their workers close to the mills, and rents were kept low even after the mills closed down. As a result, mill neighborhoods had among the highest religious diversity in 2002. However, the properties were not fully transferable in the real estate market, and thus tenants could not readily sell or rent out their properties and move away. The authors suggest that as a result, workers and ex-workers remained in more integrated neighborhoods, despite growing distaste for or fear of living among other religions on account of external events.

The authors show that for a given level of religious diversity, violence was twice as likely in mill neighborhoods. Further, this violence was predominantly directed against members of the minority group. Mill neighborhoods with no or low religious diversity did not see increased violence, suggesting that the causal effect on violence was not merely through being associated with a mill. Since tenancy rights of the ex-mill workers are not transferable in formal real estate markets, mounting tensions between Hindus and Muslims may have led to a territory war in these locations. These patterns are consistent with a story of intensified struggle for property resources in inner-city neighborhoods.

Political Reservations And Rural Public Good Provision In India

Nandini Krishnan

Discussion Paper 175

Can political representation for historically disadvantaged groups serve as an effective means to redress historical inequities? The Indian Constitution mandates reservations for two such groups, Scheduled Castes (SC) and Scheduled Tribes (ST), in federal and state legislatures. While this policy has been successful in ensuring the political presence of minority legislators, evidence on their performance in serving the interests of their electorate is limited to the analysis of aggregate expenditure patterns. In this paper, the author examines the causal link between the reservation of seats in state legislatures and rural public good provision, and explores its implications for the inter- and within-district pattern of provision.

The author's sample is drawn from 9 Indian states, and uses village census data aggregated to 64 districts and 610 electoral constituencies. First, she examines whether reservations for SC and ST lead to differences in the quantity and pattern of public good provision at the district level. Her results indicate that the reservation of an additional constituency for SC in a district increases the probability that a village in the district has an educational facility. In particular, districts represented by a greater number of reserved SC seats have a higher proportion of villages with access to a primary school.

Within a district, the author finds that the reservation of a constituency for a SC candidate increases the probability that a village in the constituency has an educational facility. The results for ST reservation at the constituency level show no discernible differences in the pattern or quantity of public good provision relative to unreserved constituencies. These results are consistent with the hypothesis that SC legislators are responding to the historical disadvantage of SC in terms of education. SC has grown increasingly successful in the political arena in recent decades. As a result, SC legislators may be much more effective as representatives of their community.

Next, the author relates the effect of reservations on the inter-district and inter-constituency allocation of public goods across different groups of constituents. In districts with greater representation of SC, SC legislators locate schools so as to favor their own community, while benefiting other groups as well. ST reservation may also lead to the location of schools in favor of their own tribes within the district, although this effect is not as significant.

The allocation of public goods within constituencies shows a similar pattern. The author points out an interesting result: the reservation of constituencies for SC leads to greater per capita access for ST to educational facilities, including primary schools. Thus, relative to an unreserved constituency, an individual belonging to a ST is more likely to live in a village with a school if he or she lives in a constituency reserved for SC. Overall, these findings do not support the hypothesis that political reservation adversely affects the responsiveness to minority interests or politician quality.

Pro-Poor Targeting And Participatory Governance: Evidence From Central India

Neha Kumar
Discussion Paper 176

How should democratic institutions be structured to ensure a fair and efficient allocation of public funds? While decentralization may be part of the answer, effective local governance is also vitally tied to the empowerment and active participation of the local community. Community-driven development projects offer a means of reinforcement of the decentralization process by actively involving beneficiaries in project design and promoting collective decision-making. This paper focuses on the impact of one community-driven project, the District Poverty Initiatives Project (DPIP), on the targeting of another government-sponsored scheme, Below Poverty Line (BPL) cards, in Madhya Pradesh, India.

Under DPIP, funds are provided to self-formed groups for any approved income generating activity. The approval process occurs through a village meeting wherein all groups have to put forth their project proposals and the entire village votes. These meetings are similar and run parallel to the traditional village council meetings called by the elected panchayat, or local government. Thus, the DPIP project village meetings orient the villagers towards the concept of village council meetings and familiarize them with their benefits.

Below Poverty Line (BPL) cards are meant to benefit the most disadvantaged households. Receipt of a poverty card entitles households to subsidized food and makes them eligible for various welfare schemes. While the elected village council bears the responsibility of allocating the poverty cards, the preliminary list of beneficiaries is ratified in the village council meeting. DPIP could indirectly lead to improved targeting of services administered by the panchayats by promoting awareness, encouraging attendance and active participation in the village council meetings.

In order to estimate the causal effect of DPIP, the author designed a survey that covered 6000 households across 300 villages. Using the results of her survey, she shows that being a DPIP village improves targeting of poverty cards among landless households by 5 percent, and by 17 percent among households belonging to lower castes. The results support the hypothesis that DPIP villages are better able to target the poverty cards to groups that are most disadvantaged. She also finds that households in the project villages are more likely to be active in village affairs and there is greater evidence of collective action.

Finally, the author examines whether these targeting efficiencies are channeled through greater participation at the village council meeting. She finds that households in DPIP villages have greater information about when village council meetings are held. Belonging to a DPIP village increases the fraction of households informed about these meetings by 17 percent above the mean. The impact on attendance at these meetings is ambiguous. However, those who attend are more likely to actively participate in a project village. Being in project village increases participation by 14 percent above the mean participation level in the sample.

Faculty Research in Progress 2008

The following paragraphs summarize the projects and development-related research being conducted by Institute affiliates from the Department of Economics at Boston University

Marianne Baxter in the past year worked on projects in a wide range of fields. Close to prior research, she has continued the investigation of risk-sharing across countries. New methods have been developed to allow risk sharing comparisons not only bilaterally, between countries, but also over time. In research that is related to her prior work on macroeconomic consequences of home production, she has been engaged in a large-scale econometric analysis of household expenditures as they pertain to home production. Using the Consumer Expenditure Survey, Dana Rotz (BU, Ph.D. student) and she have analyzed several hundred expenditure categories to determine how expenditures differ across families with different work choices. One of the surprising findings of this project is that there is little evidence of the work/home production substitutions stressed by the literature on household production.

Peter Doeringer's classic book Internal Labor Markets with Michael Piore will be published in a Japanese edition by Waseda University, following on a Spanish edition and a partial translation in Italian. He is completing a book on fashion innovation, market power, and hierarchies and networks in the apparel industry, based on enterprise surveys in the United States, France, Italy, and the UK. A paper based upon this research, Hierarchical Networks and Innovation Failures: Why the New York Garment District Doesn't Imitate Italy, was presented at the 4th International Industrial Organization Conference. He also wrote two entries, Noncompeting Groups and The Fishing Industry (with David Terkla) for the new edition of the Encyclopedia of the Social Sciences. His article, Can Fast Fashion Save the U.S. Apparel Industry? (with Sarah Crean) was published in the Socioeconomic Review. Professor Doeringer has also been serving as Associate Dean for Faculty in the College of Arts and Sciences.

Randall Ellis's recent research focuses on how payment systems affect health care providers and health plans. He presented two papers and was active at the International Health Economics Association meeting in 2007 in Copenhagen, Denmark, and was recently chosen to be President-Elect of the American Society of Health Economists (ASHE). His research on risk adjustment and predictive modeling was selected for the Academy Health's 2007 Health Services Research Impact Award for its widespread adoption in the US and abroad. As the result of the US Medicare program's adoption of a risk adjustment framework that he helped developed, numerous countries around the world are interested in his work. Ellis attended the Risk Adjustment Network (RAN) meeting in Dublin Ireland and was the plenary speaker at the Swiss Society of Economics and Statistics in Switzerland. Germany has announced that in January 2009 it will begin using a framework that Ellis helped develop to risk adjust payments to competing health plans. Ellis is currently collaborating with researchers in Australia, Canada, UK, and Germany, as well as three graduate students at BU on US and developing country topics.

Simon Gilchrist is conducting research on economy-wide and firm-level determinants of investment, and the influence of credit markets on real activity. In one recent project (joint with Mark Gertler and Fabio Natalucci), he examines the ability of dynamic stochastic general equilibrium models to explain the macroeconomic outcomes experienced during the 1997 Korean financial crisis. In other work (joint with Jae Sim); he explores the link between foreign-denominated debt, balance sheet conditions and firm-level investment spending. Again focusing on the Korean episode, this paper uses a structural model to identify the effect that devaluations may have on investment spending during a financial crisis.

Robert King continues to focus his research on monetary policy and macroeconomics. A portion of that research has considered settings, in which discretionary policy enhances complementarities in economies, thus leading to multiple equilibria with some equilibria much worse than others. An initial example, Monetary Discretion, Pricing Complementarily and Dynamic Multiple Equilibria concerns monetary policy (Quarterly Journal of Economics, November 2004). A very different example, Discretionary Policy and Multiple Equilibria involves the interaction of a government which must decide whether to build flood protection systems such as dams and levies (Federal Reserve Bank of Richmond Economic Quarterly, Winter 2006). In future work, he plans to study examples in which discretionary policy can lead to development traps. Another related component of his research concerns the question of how macroeconomic policy credibility evolves over time. In joint work with two BU PhD students, Yang Lu and Ernesto Pasten, he develops a framework for studying the behavior of a central bank "Managing Expectations" about its future policy stance.

Kevin Lang continues to focus his research on education and on labor markets. His major current project related to development (joint with Erez Siniver) examines the effect of English knowledge on the earnings of immigrants to a country where English is not the main language. He and Deepti Goel are completing a paper on the role of social networks in the assimilation of immigrants to Canada. His book, Poverty and Discrimination, was published by Princeton University Press in 2007.

Robert Lucas's current work encompasses two main fields: international migration and inter-generational mobility. At present he is collaborating on three main projects on international migration, each involving household surveys. Two of these, on Fiji and Jamaica, are joint with the Institute for Public Policy Research in London and the Global Development Network in Delhi. The third is with the World Bank and will cover about ten African states. Lucas has also been working this year with the International Labor Office in Geneva on incorporating migration into development planning and presented a paper at an ILO-French Government conference on globalization in Paris. Meanwhile Lucas is continuing his collaborative work with Sari Pekkala Kerr, a former IED visitor, on inter-generational mobility in Finland. Following on their 2007 paper on this topic, Lucas and Kerr completed a fresh paper that examines the role of family budget constraints versus inherited earning capacity, family size and the aging process, in shaping children's lifetime earnings. This paper is now under review.

Robert Margo continues his work on a variety of economic history topics. His paper with William Collins (Vanderbilt) on the economic effects of the 1960s riots, which was reported on widely in the press (including the New York Times) and was the subject of a "blog" by Gary Becker and Richard Posner, was published in the December 2007 issue of the Journal of Economic History. A paper with Jeremy Atack and Fred Bateman examining the impact of the diffusion of steam power on labor productivity growth and establishment size in nineteenth century manufacturing was published in the April 2008 issue of Explorations in Economic History. With Leah Boustan (UCLA) he is using data on employment at the US postal service to shed new light on an old issue in urban economics, the role of "spatial mismatch" as a factor in the economic effects of residential segregation. Next academic year will be on leave at the Russell Sage Foundation, where he will complete a book manuscript on the economic history of race and home ownership in twentieth century America, co-authored with William Collins.

Jianjun Miao continues to work on the topic of the economic effects of dividend taxation with Francois Gourio. He is working on two new projects. The first project analyzes the dynamic effects of temporary and permanent dividend tax cuts on corporate investment and financing decisions in a partial equilibrium model. The second project analyzes the transitional effects of dividend taxation on firms' entry, growth and exit in a general equilibrium framework. These two projects have policy implications for the dividend tax reform enacted in 2003 by the Bush government. Jianjun Miao is also working on two other projects. One project joint with Nengjiu Ju addresses the question as to how ambiguity aversion influences asset returns. He applies the smooth ambiguity model recently developed by Klibanoff, Marinacci and Mukerjee (2005). The other project joint with Rui Albuquerque studies how advance information affects asset prices. Rui and Miao show that in a heterogeneous-agent model when informed agents have advance information about a company's future earnings innovations, this advance information helps explain both momentum and reversals effects.

Dilip Mookherjee has been working on a variety of theoretical and empirical topics related to development economics. The former include inequality, mobility and segregation (with Debraj Ray and Stefan Napel), fertility and development (with Debraj Ray and Silvia Prina), bankruptcy law and bonded labor law (with Ulf Lilienfeld), and middlemen margins and globalization (with Pranab Bardhan and Masatoshi Tsumagari). The empirical research projects include land reform, local governance, deforestation, potato marketing and credit enforcement reforms in India. He advised many of the PhD students who recently graduated, in addition to external PhD students at the University of Padova, Italy and at University Carlos III at Madrid, Spain. His outreach projects include organization and teaching in a Summer School in Development Economics on behalf of BREAD (Bureau for Research in Economic Analysis of Development), in collaboration with University of Verona, Italy and Center for Economic Policy Research, London. 30 students have been selected from a world-wide applicant pool to participate in this school to be held at the Canazei campus of University of Verona, from June 30 till July 4 2008.

Andrew Newman is currently engaged in several theoretical research projects pertaining to development, organizational economics, inequality, and the economics of the household. Recent working papers include "Trade Liberalization and Organizational Choice," which examines how trade policy affects firms' decisions to integrate or outsource, and how those decisions in turn affect consumer prices and product quality; "Investment Incentives and Matching Policies," which provides a framework for assessing questions like whether school integration or affirmative action in hiring are likely to have greater (positive or negative) impact on individual decisions to invest in human capital; and "Are Career Women Good for Marriage?", which studies the recent decline in US divorce rates despite increasing female labor force participation and suggests that that this trend reversal may be accounted for by the greater flexibility of working women compared to non-working women in intra-household bargaining.

Adrien Verdelhan's research projects focus on measures of aggregate risk on financial markets. In the academic year 2007/08, along with revisions to a number of on-going projects, Adrien Verdelhan has produced two new papers. The first one estimates the total wealth-consumption ratio in the US by extracting the price of human wealth risk from financial markets. The second project shows that risk premia on currency markets are large and time-varying and that a single return-based factor explains the cross-sectional variation in currency excess returns. These findings lead to a new, no-arbitrage model of exchange rates. In the coming months, Adrien Verdelhan intends to pursue his research on currency risk, studying currency option pricing and crash risk, and carry-based hedge fund returns.

Sujata Visaria is continuing to work on a number of empirical projects related to economic development. In a forthcoming paper in the American Economic Review (Papers and Proceedings) she and her co-authors study the link between incomplete property rights and religious riots at the neighborhood level in the city of Ahmedabad, India. Continuing work in this project will examine the longer-run effects of religious violence, specifically on residential segregation and health outcomes. Her experimental research (joint with Dilip Mookherjee, Sandip Mitra and Maximo Torero) on information constraints to the marketing of agricultural produce in West Bengal, India has now entered the second year of data collection. Data from the first year are currently being analyzed. In addition, she is collaborating with Ulf von Lilienfeld-Toal and Dilip Mookherjee to examine the general equilibrium effects of improved credit contract enforcement.

PhD Students: Completed Dissertations and Placement

The following students completed PhD dissertations in fields related to development economics this past year: Carlos Chiapa, Chun-Yu Ho, Nandini Krishnan, Neha Kumar, Dan Li, Ricardo Madeira, Keisuke Nakao, Silvia Prina, Claudia Rei, and Monica Parra Torrado.

The following students obtained starting assistant professor positions: Carlos Chiapa at Collegio de Mexico, Chun-Yu Ho at Georgia Tech, Ricardo Madeira at University of San Paulo, Keisuke Nakao at University of Hawaii, Hilo, Dan Li at University of Shanghai Fudan University, China, Silvia Prina at Case Western University, Claudia Rei at Vanderbilt University.

The following students obtained starting professional research consultant/young economist positions: Nandini Krishnan and Monica Parra Torrado at the World Bank, Neha Kumar at the International Food Policy Research Institute, Washington D.C.

New IED Initiatives

A new program of Distinguished Research Visitors was initiated by IED this past year. Six distinguished economists from other universities visited for periods ranging between three days and two weeks, during which they gave a mini-course on their topic of specialization to our graduate students, conducted office hours when they met with students one-on-one and gave a departmental seminar.

A mentoring workshop for women PhD students was organized in March 2008, with two distinguished women economists Una Osili from Purdue University and Catherine Mann from Brandeis University (both members of Committee for Support of Women in the Economics Profession, set up by the American Economic Association), as well as a number of women faculty members at BU serving as panelists.

A new program of career planning and assistance services for MA students was created, including a academic career advisory panel in October 2007, a resume writing workshop in November-December 2007, and a career planning fair in March 2008. For the first time all job market applicant resumes were professionally edited and put together in the form of a book which was mailed out to various recruiters. The panel sessions were videotaped and converted into a DVD available for viewing by MA students.

2008 Rosenstein-Rodan Prize Winner Announced

The Rosenstein-Rodan prize is awarded annually for the best paper in a development-related area written by an economics graduate student.

The Determinants of Long Run Inequality

Andrea Canidio

This paper conducts a theoretical analysis of long-run effects of skill-biased technical change on skill premia and inequality incorporating both supply and demand-side responses in the presence of imperfect credit markets.

and

The Cost of the Legal System and the Hidden Economy

Francesco Russo

The paper describes the cost of the legal system and the hidden economy which extends the Hopenhayn-Rogerson model of dynamic industry equilibrium to incorporate an informal sector, and explore determinates of the size of the informal sector in a cross-country setting using both model calibration and regression results.

Summer Research Fellowships

IED awarded summer research fellowships to the following students this year: **Alfredo Burlando**, **Jessica Calfee**, **Shinsuke Ikeda**, **Hiro Ishise**, **Yang Lu**, **Michael Luca, Adam McCloskey**, **Valentina Michelangeli**, **Tatsushi Oka**, **Linxia Ren**, **Marian Vidal-Fernandez**, **Yohei Yamamoto**.

Other PhD Students

Other PhD students currently working on development related topics include **Patricia Meirelles**, **Rezida Zakarova**, **Rene Osorio**, **Alfredo Burlando**, **Paul Karner**, **Andrea Canidio**, **and Rock Magleby-Lambert**.

VISITING SCHOLARS 2008

NEW Distinguished Visitors Program 2008

Victor Lavy, Professor at the Hebrew University, Jerusalem, Israel, visited March 3rd through the 14th, gave a mini-course and seminar on Labor Economics.

Jesus Fernandez-Villaverde, Associate Professor, University of Pennsylvania visited March 17th through the 20th , he gave a mini-course and seminar on Macroeconomics and International Economics.

Jeff Ely, Professor, Northwestern University visited March 24 through the 28th , and gave a mini-course and seminar on Microeconomic Theory.

Abhijit Banerjee, Professor and Director of the Poverty Action Lab at the Massachusetts Institute of Technology visited April 14th through the 16th and gave a mini-course and seminar on Development.

Victor Chernozhukov, an Associate Professor at the Massachusetts Institute of Technology visited April 28th to May 9th, and gave a mini-course and seminar in Econometrics

Lars Hansen, Professor, University of Chicago, visited April 5 through the 8th and gave a mini-course and seminar in Macroeconomics

Gautam Gowrisankaran, Professor at the University of Arizona visited June 9th through the 11th and gave a mini-course and seminar in Industrial Organization.

IED RESEARCH VISITORS

Fernanda Brollo is a third year PhD student in economics visiting from Milan Italy for a six month period. Fernanda Brollo is currently working on anti-corruption programs in Brazil. Professor Mookherjee has been advising her and meeting with her to discuss her research. She has been attending lectures and meeting with IED affiliates.

Professor Stefan Napel of the University of Bayreuth, Germany is visiting for a period of seven months. Professor Napel is collaborating with Dilip Mookherjee along with a past colleague Debraj Ray now at New York University, on a three year project funded by the NSF.

Professor Masatoshi Tsumagari of Keio University, Japan visited for 15 days during the month of March 2008, to work with Dilip Mookherjee on a project on globalization and middleman margins.

SEMINARS

IED organizes a weekly seminar year-round where visiting speakers present their research. The following is the list of seminars the past year:

September 17 **Ashok Rai** (Williams College)
Does Collateral Reduce Overdues? A Regression Discontinuity Approach with Stefan Klonner

October 01 **Manuel Oechslin** (University of Zurich)
Creditor Protection and the Dynamics of the Distribution in Oligarchic Societies

October 15 **Alessandra Fogli** (Minneapolis Federal Reserve Bank) *Nature or Nurture? Learning and Female Labor Force Dynamics*

October 22 **Christian Ahlin** (Michigan State University)
Matching for Credit: Risk and Diversification in Thai Micro-borrowing Groups

November 05 **Ariane Lambert Mogiliansky** (PSE, Paris-Jourdan Sciences Economiques)
Public Markets Tailored for the Cartel- Favoritism in Procurement Auctions

November 26 **Alok Bhargava** (University of Houston)
HIV pandemic, medical brain drain and economic development in sub-Saharan Africa

December 03 **Neha Kumar** (Boston University)
Job Market Rehearsal Talk Pro-poor targeting and participatory governance: Evidence from central India

December 10 **Alan Manning** (LSE)
Culture Clash or Culture Club? The Identity and Attitudes of Immigrants in Britain

March 17 **Lori Beaman** (University of California, Berkeley)
Social Networks and the Dynamics of Labor Market Outcomes: Evidence from Refugees

March 24 **Miguel Urquiola** (Columbia University)
Class-Size Caps, Sorting, and the Regression Discontinuity Design With Eric Verhoogen

March 31 **Una Osili** (Indiana University-Perdue University at Indianapolis) *Bank Crises and Investor Confidence: Learning from the Experience of U.S. Immigrants* With Anna Paulson

April 7 **Maitreesh Ghatak**
(London School of Economics, visiting Michigan) *Creating Collateral: The de Soto Effect and the Political Economy of Legal Reform* With Tim Besley

April 14 **Abhijit Banerjee**
(Massachusetts Institute of Technology) *Modeling the Financial Lives of the Poor*

April 28 **Frederico Finan** (UCLA) *Motivating Politicians: The Impacts of Monetary Incentives on Quality and Performance*

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