

# 040254-1: The challenge of world poverty

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## Course Description

The course proposes an in-depth exploration into the most important issues of persistent world poverty. The following questions are explored through lectures and discussions:

- What is poverty?
- How is poverty measured?
- Why poverty persists?
- Can the poor afford a minimum caloric intake?
- Is the health system helping the poor?
- How do we make schools work for poor citizens?
- How do the poor save and invest?
- Why are poor families often numerous?
- Is micro-finance useful to eradicate poverty?
- Why do the poor make seemingly suboptimal decisions?

The course begins with an introduction to the measurement of poverty. To that end, we first study how a poverty line is measured and how and why it varies across countries. A strong emphasis is given to the type of poverty measurement adopted (head count, depth of poverty, or severity of poverty) and how poverty lines change accordingly. We finalize by reviewing how the world poverty line is calculated and its changes along the last years.

We next study the actual picture of poverty and its dynamics in the previous centuries. We introduce two classic models of growth, the Solow-Swan model and a simple version of the

Ramsey-Koopmans model to establish that persistent poverty is, according to the predictions of these models, a slow convergence to an otherwise good equilibrium. We introduce the concept of poverty traps in these models and how they can emerge from either market constraints or non-convexities on the production function.

At this point the tool of randomized control trials is introduced. I focus on the idea of establishing causal relationships by means of randomization and how this can be achieved in an experimental setup. Also, we establish the conditions under which such causal inference can be found in non-experimental settings by means of conditional independence or using instrumental variables.

The combination of experimental and theoretical approaches allows us to study different dimensions in which poverty traps can emerge, and their empirical validity. In that way we study poverty traps associated to nutrition, health access, credit constraints, human capital accumulation, and family composition.

We finalize the course by studying behavioral poverty traps. These are bad equilibria generated by non-standard behaviors such as time-inconsistent preferences, non-homothetic preferences, myopia, and bounded rationality.

## Required Materials

- Course notes available on Moodle.

## Additional Materials

- Ravallion, M. (2015). The economics of poverty: History, measurement, and policy. Oxford University Press.
- Duflo, E., Banerjee, A. (2011). Poor economics. Public Affairs.
- Ghatak, M. (2015). Theories of poverty traps and anti-poverty policies. The World Bank Economic Review, 29, S77-S105.
- World Bank. World development report 2015: Mind, society, and behavior. 2015.

## Prerequisites/Corequisites

Students should have completed an introductory econometrics course where they gained basic knowledge of regression analysis, including ordinary least squares (OLS) and instrumental variables estimation. Also, they should have completed an intermediate microeconomics course, where they gained knowledge on decision-making under uncertainty and basic game theory.

## Course Objectives

The first goal of the course is to familiarize students with current topics in the study of poverty: main problems, causes, consequences and policies. This means that, at the end of the course, students are expected:

- To have knowledge about current themes (poverty, decision-making under poverty, nutrition, health, human capital and education, credit, savings, and entrepreneurship) and the corresponding theoretical and empirical argumentation in the academic literature.

The second goal of the course is to familiarize students with modern research methods. This means that, at the end of the course, students are expected:

- To have a good understanding of the most commonly used statistical methods in research (ordinary least squares (OLS), instrumental variables (IV) estimation, randomized control trials (RCTs), difference-in-differences estimation, etc.).
- To be able to assess the quality of academic studies in terms of statistical analysis and the assumptions on which this analysis is based.

The third goal of the course, in addition to obtaining knowledge about the themes and an understanding of the methods, is to develop the ability of students to think critically about these topics and to develop a critical academic attitude when reading academic studies. This means that, at the end of the course, students are expected:

- To have a critical understanding of academic papers in development economics.

## Course Structure

### Lecture

There will be 20 lectures in total in which the main topics of the course will be presented and some examples will be discussed. 4 Q&A sessions will discuss the solution to the assignments and let students ask questions.

### Assignments

There will be two Assignments that will be used as preparation for the exams. The content of the assignments will be of similar difficulty as the examples shown in the lectures and serve to prepare students for the exams. The assignments should be handed in groups of 3 students.

### Exams

There will be a midterm and a final exam. The exams will cover the material discussed in lectures up until the lecture before the exam.

Due to the Corona situation, these exams will be open-book and internet based exams via Moodle.

### Grading and Grading Policy

The Universität Wien grading scale will be used. I reserve the right to curve the scale dependent on overall class scores at the end of the semester. That a curve system is used will only ever make it easier to obtain a certain better grade. The grade will count the assessments using the following proportions:

- 35% of your grade will be determined by a class midterm exam.
- 35% of your grade will be determined by a class final exam.
- 30% of your grade will be determined by 2 assignments (15% each).

In each of these criteria students can attain a maximum total of 100 points. To guarantee consistency, each of these criteria, as well as the final note of the course, can be converted to the University grading scheme according to the following scale:

-1: 100-90 points -2: 90-76 points -3: 75-60 points -4: 59 points-50 points -5: less than 50 points.

This means that to pass the course the student needs to attain at least 50% of all available points.

## **Course Policies**

### **During Class**

I understand that the electronic recording of notes will be important for class and so computers will be allowed in class. Please refrain from using computers for anything but activities related to the class. Eating and drinking are allowed in class but please refrain from it affecting the course.

### **Attendance Policy**

Attendance is expected in all lectures and exams.

### **Policies on Incomplete Grades and Late Assignments**

If an extended deadline is not authorized by the instructor or department, an unfinished incomplete grade will automatically change to a 5.

Late assignments will be accepted for no penalty if a valid excuse is communicated to the instructor before the deadline. After the deadline, assignments will be accepted for a 50% deduction to the score up to 2 days after the deadline. After this any assignments handed in will be given 0.

### **Academic Integrity and Honesty**

Students are required to comply with the university policy on academic integrity found in the Code of Student Conduct.

## Schedule

The schedule is tentative and subject to change. Each exam will test on all the material that was taught up until the exam.

**Week 01, 10/03 - 10/07:** Definition of poverty and poverty lines

**Week 02, 10/10 - 10/14:** Poverty in the world and a theory of poverty traps

**Week 03, 10/17 - 10/21:** The methodology of field experiments

**Week 04, 10/24 - 10/28:** Nutrition-based poverty traps and health systems among the poor

**Week 05, 10/31 - 11/04:** Human capital accumulation and poverty

**Week 06, 11/07 - 11/11:** Q&A sessions

**Week 07, 11/14 - 11/18:** Midterm week

**Week 08, 11/21 - 11/25:** Fertility and risk attitudes among poor families

**Week 09, 11/28 - 12/02:** Savings and credit constraints

**Week 10, 12/05 - 12/09:** Aspirations failure and Cognitive depletion

**Week 11, 12/12 - 12/16:** Q&A sessions

**Break, 12/19 - 12/23:**

**Break, 12/26 - 12/30:**

**Break, 01/02 - 01/06:**

**Week 12, 01/09 - 01/13:** Final Exam