

Poor Economics

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- 1 Introduction
- 2 Randomized controlled field trial
- 3 Other aspects

Outline

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Outline

1 Introduction

- The problem
- Theory and practice
- Goals

Some numbers

- > 700 million people are at the subsistence level
- 865 million people in the world live with less than 99 cents (of USD) per day
- 5 million children (<5y) die each year from diseases that could be cheaply prevented or treated
- $\frac{1}{2}$ of world's children leave school without basic skills

Poverty is not only lack of income

- Poor quality of life: hours collecting water instead of playing, working, learning
- Poor education
- Difficulties to realize your ambition (get a loan)

Some other questions

- Are aid sufficient?
- Are aid effective?

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How to adress global poverty?

- Break it into smaller questions
- Provide a model to analyse a given question
- Test at a micro-level whether measure to alleviate poverty are effective

Theory and practice

- A model need to be tested:
 - what is the actual counterpart of the model?
 - what is the quantitative effect of a given policy?
 - what is the causal relationship?

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Human Development Index

- Economic growth alone is not sufficient to capture the development of a country
- Summary of key dimensions of human development:
 - Long and healthy life (life expectancy at birth)
 - Education (Expected years of schooling + Mean years of schooling)
 - Decent std of living (GNI per capita)
- Health and education are **capabilities** and development as freedom (A. Sen)

MDGs (2000-2015)

- To eradicate extreme poverty and hunger
- To achieve universal primary education
- To promote gender equality and empower women
- To reduce child mortality
- To improve maternal health
- To combat HIV/AIDS, malaria, and other diseases
- To ensure environmental sustainability
- To develop a global partnership for development

SDGs (2015-2030)



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2019 Nobel

Abhijit Banerjee, Esther Duflo and Michael Kremer

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 - Health

Intuition

- we want to test whether providing cash grants conditional to sending children to school is an effective policy
- the question can be rephrased as: we want to test at time t whether family A with the subsidy will send children to school and without the subsidy won't
- but family A either receives the subsidy or doesn't
- we can offer the program and analyse whether enrollment increases
- but there would be selection and omitted-variable bias
- random selection of 2 samples:
 - treatment
 - control

Omitted-variable bias

We compare the availability of textbook and school performance:

- higher family income may mean more time for studying, better schools, ...

Progresa in Mexico

- cash grants conditional to sending children to school is an effective policy (secondary school)
- continued in Mexico and similar programs in Latin America

Possible problem

- is conditionality enforced?
 - students attend only when there is the distribution of cash/food
 - falsification of attendance recording

Free school meals

- reduction of education (opportunity) costs
- effective in Kenya

The cost of education

Important element but also:

- health
- teaching (e.g. absenteeism, incentives)
- infrastructure
- opportunity cost and culture
- governance (e.g. empower parents within school committees)

Banerjee, Cole, Duflo and Linden 2007

- India
- quantitative improvements: little effect
- qualitative improvements:
 - hiring paraprofessional teachers
 - computer-assisted learning program (math puzzles)
 - medium term effects

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Externalities

An **externality** occurs when a person's well-being or a firm's production capability is **directly affected** by the actions of other consumers or firms rather than indirectly through changes in prices.

In presence of externality the market allocation doesn't take into proper account the damage or benefit.

Positive price

ambiguous effect:

- ↓ reduction in demand (budget constraint)
- selection effect
- sunk cost effect (use more once bought)
- signal higher quality
- entitlement effect (people expect things received for free as being always free)

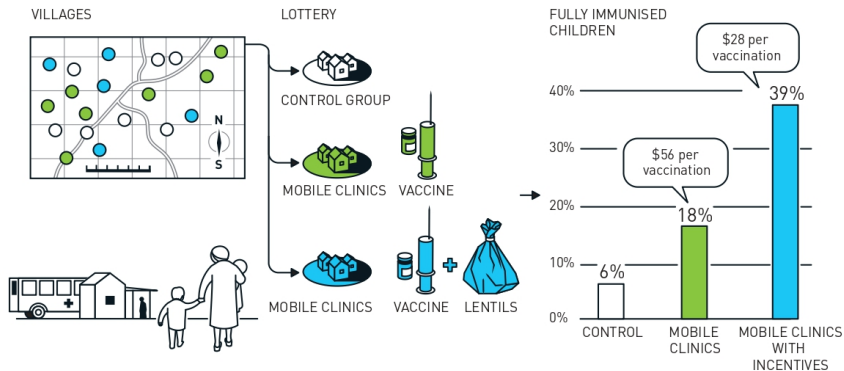
If reduction in demand prevails

- the revenue may not compensate the increased importance of fixed costs!
- ↑ cost, ↓ output

Kremer and Miguel (2007)

- experiment on deworming with 2 groups:
 - free (high participation)
 - cost sharing (low participation)
- what is the effect of the positive externalities on the perceived value?
- has the price been increased too much?

Vaccination



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Vaccination

- At least one shot in camps without vs with incentives 78% vs. 74%
- Incentives important for full immunization
- Reduction in average costs with incentives due to high fixed costs

Bednets against mosquitos

- mosquitos transmit malaria (bitting mainly at dusk)
- insecticide treated bednets are powerful against mosquito
 - direct effect (prevent mosquitos to bit a healthy person)
 - indirect effect or externality (prevent mosquitos to bit an infected person)

Bednets against mosquitos

- Purchase rates drop off quickly as prices increase
 - even within groups that need bednets (no selection effect)
- usage is trendless in price (no sunk cost effect)
- diffusion effect: if neighbours received bednets for free, more likely to buy them

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 - Sympathy and callousness

how to raise money to help the poor?

- so far we have considered that we have enough resources to help the poor (eventually misallocated)
- that's not always the case

Small et al. (2007)

- several examples that when there is an identifiable victim donations are higher
- bias in charity donation: allocation is not efficient
- inconsistency in the evaluation of life

Small et al. (2007)

- proportion of the reference group effect
- qualitative distinction:
 - statistical victims
 - identifiable victims

Bibliography

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