

Module III - Development Economics

Name of course

Welfare, Inequality and Poverty: Theory, Measurement and Estimation

Course instructor

Giovanni Vecchi, University of Rome “Tor Vergata”

Course description

The course focuses on the analysis of inequality and poverty. Broadly, its aim is to provide students with the conceptual and analytical tools required to understand reports and academic papers dealing with the topics of well-being, inequality and poverty, and to think critically and contribute competently to the public discourse on these topics. More specifically, at the end of the course students will be able to estimate and interpret a selection of the most popular poverty and inequality measures.

To this purpose, the course combines three main topic areas, namely (a) the *conceptualization* of the standard of living (what do we mean by “standard of living”, exactly?), (b) the *measurement* of economic welfare, poverty and inequality (what indices are available? which one should the analyst pick? why?), and (c) the *estimation* methods required for carrying out empirical analysis based on household-level survey data (how are poverty and inequality indices estimated? how is their reliability assessed?).

Course schedule

Lecture 1

The monetary welfare indicator

Recommended readings:

1. Atkinson, A. B. 2019. *Measuring Poverty around the World*. Princeton and Oxford: Princeton University Press. Chapter 1 (“Introduction”), pp. 1-27.
2. Deaton, A. and J. Muellbauer. 1980. *Economics and Consumer Behavior*. Cambridge: Cambridge University Press. Chapter 2 (“Preferences and demand”), pp. 25-42.
3. Deaton, A. and Zaidi, S. (2002). Guidelines for Constructing Consumption Aggregates for Welfare Analysis. *LSMS Working Paper No. 135*. Washington, DC: The World Bank. Chapter 2 (“Theory of the measurement of welfare”), pp. 4-21; Chapter 4 (“Constructing the nominal consumption aggregate”), pp. 22-60.
4. Mancini, G. and G. Vecchi. 2022. *On the Construction of the Consumption Aggregate for Inequality and Poverty Analysis*. Washington, DC: World Bank. Chapter 2 (“Theory of welfare measurement”), pp. 3-13. Chapter 7 (“Data Issues”), pp. 91-107.

Lecture 2

Adjustments for price variations and differences in household needs

Recommended readings:

1. Deaton, A. and Zaidi, S. (2002). Guidelines for Constructing Consumption Aggregates for Welfare Analysis. *LSMS Working Paper* No. 135. Washington, DC: The World Bank. Chapter 4 (“Adjusting for cost of living differences”), pp. 23-38; Chapter 5 (“Adjusting for household composition”), p. 46-52.
2. Mancini, G. and G. Vecchi. 2022. *On the Construction of the Consumption Aggregate for Inequality and Poverty Analysis*. Washington, DC: World Bank. Chapter 5 (“Adjusting for price variation”), pp. 63-80; Chapter 6 (“Adjusting for household size and composition”), p. 82-90.

Lecture 2

Measuring inequality

Recommended readings:

1. Cowell, F. A. 2011. *Measuring Inequality*, Oxford University Press. Chapter 1 (“First Principles”), pp. 1-14; Chapter 2 (“Charting Inequality”), pp. 17-37, and Chapter 3 (“Analysing inequality”), pp. 39-75.

Lecture 4

Measuring poverty

Recommended readings:

1. Atkinson, A. B. 2019. *Measuring Poverty around the World*. Princeton and Oxford: Princeton University Press. Chapter 2 (“What Do We Mean By Poverty”), pp. 28-57.
2. Ravallion, M. 1994. *Poverty Comparisons*. London: Routledge.
3. Ravallion, M. 2016. *The Economics of Poverty. History, Measurement and Policy*. New York and Oxford: Oxford University Press. Chapter 4 (“Poverty Lines”), pp. 191-215.

Lecture 5

Estimating inequality and poverty

Recommended readings:

1. Cowell, F. A. 2011. *Measuring Inequality*, Oxford University Press. Chapter 5 (“From Theory to Practice”), pp. 103-149.
2. Mancini, G. and G. Vecchi. 2022. *On the Construction of the Consumption Aggregate for Inequality and Poverty Analysis*. Washington, DC: World Bank. Chapter 8 (“Sensitivity Analysis”), pp. 108-124.

3. Ravallion, M. 2016. *The Economics of Poverty. History, Measurement and Policy*. New York and Oxford: Oxford University Press. Chapter 5 (“Poverty and Inequality Measures”), sections 5.3, 5.4, 5.5 and 5.6, pp. 230-265.

Duration 21 hours

Exam Written