

ECON. 610: ECONOMIC DEVELOPMENT

Fall 2003
Tuesdays and Thursdays 3:00 to 4:15 p.m.
Edmonds
Saunders 637

Visiting Assistant Professor
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Office: Social Science Bldg. 515A
Office Hours: Wednesday 4:00-5:30 p.m.
and by appointment

Prerequisites and latest course information

This class is open to both masters and doctoral students. Course prerequisites are ECON 606 and 607. Students without prerequisites may enroll in the course with permission of the instructor.

Updated information about this class, including the most up-to-date course outline and reading list, assignments, sample questions to guide preparation for examinations, and information concerning examinations and course grades will be disseminated after lectures.

Course Overview

This course will examine the nature of growth and causes of underdevelopment in newly industrialized or less developed economies, with--when possible--a focus on the experience of Asia economies. Consideration of poverty – in its various dimensions – and of current policy and program approaches to alleviating poverty in developing countries represents a second major theme examined in the course. The course will devote greater attention to macroeconomic issues related to development while Econ. 611 focuses on the microeconomics of development, although the boundary between these sometimes rather blurry. The course will be oriented toward applied policy modeling and includes a number of quantitative exercises (spreadsheet based) that seek to make clear the how to link theory from economics and development economics to available data to inform policy. It is hoped that by combining theory with empirical analysis focusing on pressing policy issues, the practical application of theory and econometric techniques will help students completing the course lasting insights into how to provide economic advice to policymakers.

Readings

Textbook:

(required) Sadoulet, Elisabeth, and Alain de Janvry. 2003. *Quantitative Development Policy Analysis* (First Edition). Johns Hopkins University Press. The text will be available at the campus bookstore under Econ 610.

(recommended for broader and less technical discussion of issues addressed in the course)
Ray, Debraj. 1998. *Development Economics*. Princeton University Press.

The course will also rely on individual articles or book chapters. In many cases, these are available through JSTOR or other resources (noted in this syllabus) available on the internet so can be downloaded at no cost. Readings not available on-line will be made reserve readings in the Library.

Course Grades

Grades will be based on your performance on class assignments (50 percent), a final exam (30 percent), and class participation (20 percent)—particularly two planned student presentations during the semester.

During the semester, you will be given two types of assignments.

- 1) Applied development policy analysis exercises (4) – There will be four assigned exercises which require use of a spreadsheet such as Excel and use of the Internet to access data. Text and data for the exercises can be retrieved from the course homepage. Exercises will be distributed 2 weeks prior to the due date.
- 2) Policy briefs (3) – These consist of 3 to 5 (double-spaced 11 point Times Roman font with one inch margins) page discussions that draw on current research or data to argue for or against a particular policy stance. Tentative topics for the briefs will be determined as the course progresses, and are likely to address such topics as: the globalization debate and policy responses to risks and opportunities raised by globalization, lessons from the East Asian growth experience, trade agreements and deeper economic integration, poverty reduction strategies and the role of growth versus targeted interventions. These subjects may change as indicated by discussions emerging during lectures. Policy brief assignments will be distributed one week before they are due.

Due dates for assignments will be provided as the course progresses. The applied policy analysis exercises can be completed by two-person teams, while policy briefs must be prepared individually. Assignments turned in late will receive discounted grades. All assignments should be typewritten and policy exercises should include a printout of the work of the student or students on the analysis spreadsheet, but equations or formulas included in write-ups can be hand written if necessary.

Course Outline and Reading List

Introduction and overview

Ray Ch. 2

Sadoulet and de Janvry Ch. 1

World Bank, 2001. *World Development Report 2000/2001*, pp. 15-29.

United Nations (undated). *Millennium Development Goals.* online at <http://www.developmentgoals.org>

Dual Economy, Neoclassical Growth, and New Growth Theory Models

Chenery, H., and A. Strout. 1966. "Foreign Assistance and Economic Development," *American Economic Review*, vol. 56, pp. 679-733. (Available on JSTOR)

Harris, J. and M. Todaro 1970. "Migration, Unemployment, and Development: A Two-Sector Analysis," *American Economic Review*, vol. 60, pp. 126-142. (Available on JSTOR)

Fei, W., and G. Ranis, 1961. "A Theory of Economic Development," *American Economic Review*, vol. 51, pp. 452-454. (Available on JSTOR)

Jorgenson, D. 1967. "Surplus Agricultural Labor and the Development of a Dual Economy," *Oxford Economic Papers*, vol. 19, pp. 288-312. A more recent treatment of his original model can be found in: Jorgenson, D. 1998. "Growth," *Econometric general equilibrium modeling*, Cambridge and London: MIT Press.

Klanow, P., and A. Rodriguez-Clare, 1997. "The Neoclassical revival in Growth Economics: Has It Gone Too Far?" in B. Bernanke and J. Rotemberg (editors) *NBER Macroeconomics Annual 1997*, MIT Press: Cambridge, Massachusetts, pp. 73-114.

Ray Ch. 3 and 4

Romer, P. 1990. "Endogenous Technological Change," *Journal of Political Economy*, vol. 98, pp. 71-102. (Available on JSTOR)

Syrquin, M. 1988. "Patterns of Structural Change." *Handbook of Development Economics*, (H. Chenery and T. Srinivasan editors), Vol. I, Ch. 7.

Young, A. 1995. "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Miracle," *Quarterly Journal of Economics*, vol. 110, pp. 641-680. (Available on JSTOR)

Growth/Development Strategies

Chenery, H. 1975. "The Structuralist Approach to Development Policy," *American Economic Review*, vol. 65, pp. 310-316. (Available on JSTOR)

Krueger, A. 1974. "The Political Economy of Rent-Seeking Society," *American Economic Review*, vol. 64, pp. 291-303. (Available on JSTOR)

Prebisch, R. 1959. "Commercial Policy in the Underdeveloped Countries," *American Economic Review*, vol. 49, pp. 251-273. (Available on JSTOR)

Rodrik, D. 2003. "Growth Strategies," draft manuscript for *Handbook of Economic Growth*. Available on-line at <http://ksghome.harvard.edu/~drodrik.academic.ksg/growthstrat10.pdf>

Streeten, P. 1982. "A Cool Look at Outward-Looking Strategies for Development," *The World Economy*, cite in A and R syllabus incomplete

Timmer, P. 1989. "The Agricultural Transformation," *Handbook of Development Economics*, (H. Chenery and T. Srinivasan editors), Vol. I, Ch. 8.

Stabilization and structural adjustment -- Asian Financial Crisis

Frankel, J. 2000. "The Asian Model, the Miracle, the Crisis, and the Fund," in P. Krugman (editor) *Currency Crisis*, The University of Chicago Press for the NBER.

Ray Ch. 17, pages 690-701.

Rodrik, D. 1996. "Understanding Economic Policy Reform." *Journal of Economic Literature*, vol. 34, pp. 9-41. (Available through JSTOR)

Summers, L. and L. Pritchett, 1993. "The Structural Adjustment Debate," *American Economic Review*, vol. 83, pp. 383-389. (Available on JSTOR)

Stiglitz, J. 1999. "Back to Basics: Policies and Strategies for Enhanced Growth and Equity in Post-Crisis East Asia," presented at the Shangri-la Hotel, Bangkok, Thailand on 29-July 1999. Available on-line at:

<http://www.worldbank.org/knowledge/chiefecon/articles/bangkok.pdf>

Also see *Globalization and Its Discontents* 2002, particularly Ch. 4 (pp. 89-132), New York: W.W. Norton & Company Inc.

Relationship between growth, inequality, and poverty

Ahluwalia, M. 1976. "Income Distribution and Development: Some Stylized Facts," *American Economic Review*, vol. 66, Issue 2, pp. 128-135. (Available on JSTOR)

Dollar, D., and A. Kraay. 2001. *Growth is Good for the Poor*. Development Research

Group, World Bank. Paper can be downloaded from http://econ.worldbank.org/files/1696_wps2587.pdf.

Eastwood, R., and M. Lipton. 2000. "Pro-poor Growth and Pro-growth Poverty Reduction: Meaning, Evidence, and Policy Implications." *Asian Development Review*, vol. 18, no. 2, pp. 22-58. Paper can be downloaded from: http://www.adb.org/Documents/Periodicals/ADR/ADR_Vol_18_2.pdf

Kanbur R. 2001. "Economic Policy, Distribution and Poverty: The Nature of Disagreements," Working Paper, available through the internet at: <http://www.people.conrell.edu/pages/sk145>

Kuznets, S. 1955. "Economic Growth and Income Inequality." *American Economic Review*, vol. 65, pp. 1-65. (Available on JSTOR)

Ravallion, M. 2001. "Growth, Inequality, and Poverty: Looking beyond Averages," *Policy Research Working Paper No. 2558*, The World Bank, Washington, D.C. Paper can be downloaded from: http://econ.worldbank.org/files/1419_wps2558.pdf.

Ravallion, M. and G. Datt, 1999. "When Is Growth Pro-Poor: Evidence from the Diverse Experiences of India's States," *Policy Research Working Paper No. 2263*, The World Bank, Washington, D.C. Paper can be downloaded from: <http://econ.worldbank.org/docs/1016.pdf>.

Measurement of Poverty and assessment of poverty impact

Chen, S. and M. Ravallion, 2000. "How Did the World's Poorest Fare in the 1990s?" *Policy Research Working Paper No. 2409*, The World Bank, Washington, D.C. Paper can be downloaded from: <http://econ.worldbank.org/docs/1164.pdf>

Ravallion, M. 1992. "Poverty Comparisons: A Guide to Concepts and Methods," *LSMS Working Paper No. 88*, The World Bank, Washington, D.C. Obtain on-line by going to <http://www-wds.worldbank.org> and typing "LSM 88" in the search.

Ravallion, M. 1998. "Poverty Lines in Theory and Practice," *LSMS Working Paper No. 133*, The World Bank, Washington, D.C. Obtain on-line by going to <http://www-wds.worldbank.org> and typing "LSM 133" in the search.

Project and Program Economic Evaluation

Brent, R. 1998. *Cost-Benefit Analysis for Developing Countries*, Ch. 1 "Introduction to project appraisal and cost-benefit analysis," and Ch. 2 "Investment Criteria," pp. 3-40.

Ravallion, M. 1999. "The Mystery of the Vanishing Benefits: Ms. Speedy Analyst's

Introduction to Evaluation,” *Policy Research Working Paper No. 2153*, The World Bank, Washington, D.C. Can be downloaded from: <http://econ.worldbank.org/docs/781.pdf>.

Partial Equilibrium analysis and measurement of price distortions--Purchasing power parity, measures of trade protection, and exchange rate distortion.

Sadoutlet and de Janvry Ch. 7 and 8

Applied macroeconomic models – to understand sources of growth and policy impacts on growth and poverty

Defourny, J. and E. Thorbecke, 1984. “Structural Path Analysis and Multiplier Decomposition within a Social Accounting Matrix,” *The Economic Journal*, vol. 94, pp. 111-136.

Dervis, K., J. de Melo, and S. Robinson, 1982. *General equilibrium models for development policy*, New York: Cambridge University Press, selected chapters.

Pyatt, G., and J.I. Round. 1985. “Social Accounting Matrices for Development Planning.” *Social Accounting Matrices: A Basis for Planning*, Washington, D.C., U.S.A.: World Bank, Ch.2.

Sadoulet and de Janvry Ch. 10, 11, and 12.

Trade and development

Bliss, C. 1989. "Trade and Development," *Handbook of Development Economics*, (H. Chenery and T. Srinivasan editors) Vol. II, Ch. 23.

Frankel, J., and D. Romer, 1999. “Does Trade Cause Growth,” *American Economic Review*, vol. 89, pp. 379-399. (Available on JSTOR)

Ray Ch. 16

Rivera-Batiz, L. and P. Romer, 1991. “Economic Integration and Endogenous Growth,” *The Quarterly Journal of Economics*, vol. 106, pp. 531-555. (Available on JSTOR)

Trading arrangements and institutions – preferential trading arrangements

Asian Development Bank. 2002. “Preferential Trade Agreements in Asia and the Pacific,” Theme Chapter in the *Asian Development Outlook for 2002*. Available on-line at

http://www.adb.org/Documents/Books/ADO/2002/pref_trade.pdf

Clarete, R., C. Edmonds, and J. Seddon-Wallack, 2003. "Asian Regionalism and Its Effects on Trade in the 1980s and 1990s," *Journal of Asian Economics*, vol. 214, pp. 91-129. Read working paper version of the paper that can be downloaded at http://www.adb.org/Documents/ERD/Working_Papers/wp030.pdf

Ray Ch. 18.

Rose, A. 2002. "Do We Really Know that the WTO Increases Trade?" Working Paper Haas School of Business, University of California (Berkeley). Most recent version of the paper can be downloaded from: <http://papers.nber.org/papers/w9273.pdf>

Empirical Applications for Development Policy Analysis

-- a great number of papers to choose from and selection will depend upon students interests and related factors

To be determined.

Foreign aid and development performance

Burnside, C. and D. Dollar, 2000. "Aid, Policies, and Growth," *American Economic Review*, vol. 90, pp. 847-868. (Available on JSTOR)

Easterly, W. 2002. "The Cartel of Good Intentions: Bureaucracy versus markets in foreign aid," Center for Global Development Working Paper No. 4. Available on-line at: http://www.cgdev.org/wp/cdg_wp004.pdf

Also see *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* 2002, Boston: MIT Press.

Other topics may be added depending upon rate at which topics above can be covered, particular areas of student interest, and similar concerns -- any additions would be clarified by Oct. 31.