

ECONOMIC DEVELOPMENT POLICY: Tentative SyllabusCourse Description

Economic Development Policy concerns the nature and consequences of policies designed to promote welfare-augmenting growth and structural change. This requires a micro-analytic perspective that accommodates induced institutional change and a welfare economics suitable for analyzing the static and dynamic consequences of policy reform. Topics include: Specialization and Market Evolution, Economic Justice, Land, Labor, and Credit Policies, the New Institutional Economics, Developing Agriculture and Industry, The Political Economy of Corruption, Sustainable Development, the Asian Miracle and Crisis, the Washington Consensus (before and after Stiglitz) and the Hawaii Synthesis. A central theme will involve contrasting the new Development Microeconomics with the more fundamental New Institutional Economics and New Classical Microeconomics (aka Organic Coasean Theory of Economic Development). Students are encouraged to suggest additional topics for group discussion.

Required text

World Development Report 2008: Agriculture and Development

Recommended text

Mookerjee and Ray, *Readings in the Theory of Economic Development*, 2001

References

Dercon, Stefan (ed.), *Insurance against Poverty*, 2004

Handbook of Development Economics, Vols. 3&4, Elsevier

Stiglitz, *Whither Socialism* (1993)

Dixit, *The Making of Economic Policy* (1996) and *Lawlessness and Econ* (paper, 2007)

Yang, *Economic Development and the Division of Labor*, 2003.

Serra and Stiglitz, *Washington Consensus Reconsidered: Towards a Global Governance*, 2008

Bardhan&Udry, *Readings in Dev Econ I&II*.

Grading

Midterm	24%
Paper ¹	24%
Final ²	36%
Homework+citizenship	16%

Office hrs. Wed, 1:30-3 and by appt. (jimr@hawaii.edu)

Tentative Reading List and Topics**I. Welfare-theoretic Foundations of Development Policy**

- A. "Welfare Economics and the Minimal Role of Government: An Axiomatic Approach," (handout)
- B. Appendices

¹ Two-page (max) typed proposal due beginning of week 5. Paper due during penultimate class.

² See *UHM Schedule of Classes*.

1. Arrow, K. (1969), "The Organization of Economic Activity: Issues Pertinent to the Choice of Market versus Non-market Allocation," in the *Analysis and Evaluation of Public Finance: the PPB System*.
2. Cornwall, R. (1984), *The Use of General Equilibrium Analysis*, Amsterdam, North-Holland. pp. 377-388, 461-471, 484-487, 535-536, 556-560*
3. Roumasset, J. (1979), "Sharecropping, Production Externalities, and the Theory of Contracts," *American Journal of Agricultural Economics*, Vol 61, No. 4: 640-647
4. Samuelson, P. (1969), "Pure Theory of Public Finance and Taxation"*
5. Proof of 5a <http://ideas.repec.org/a/cje/issued/v31y1998i4p952-974.html> *
- C. Stiglitz, "Some Lessons from the East Asian Miracle," *World Bank Research Observer*, Aug., 1996, esp. pp.160-161; Review of Globalization and its Discontents, <http://www.nybooks.com/articles/15630> ; chs 1-3* and ch 4 (esp sections before discussion of non-convexities) from Stiglitz, *Whither Socialism*.
- D. R'set, "Development is Letting Go of Fear" UH Program on Conflict Resolution, WP 1993-3.
- E. Krugman, "The Fall and Rise of Development Economics"
<http://www.pkarchive.org/theory/dishpan1.html>
- F. Murphy et. al, "Industrialization and the Big Push," ch 1 in Mookherjee and Ray.
<http://ideas.repec.org/a/ucp/jpolec/v97y1989i5p1003-26.html>
- G. Power, "Role of Protection...", *EAER*, 6/72, esp. history of thought in econ dev.
- H. Chenery (1961), "Comparative advantage and development policy. *American Economic Review*, 51;* Scitovsky, "Two concepts of external economies," *JPE* 62(2), 1954, pp. 143-151*
- I. Lucas, lecture 3*; also ch 9 in Bardhan and Udry I and as Lucas, Robert E. (1993): "[Making a miracle.](#)" *Econometrica*, 61(2):251-272.*
- J. WDR, '08, chs. 1-4.

II. Development Microeconomics I: Behavior

- A. Household decision-making w/transaction costs
- B. Decision-making among low-income farmers
- C. Readings
 1. de Janvry, Fafchamps, and Sadoulet (1991), "Peasant Household Behavior with missing markets: some paradoxes explained," *Economic Journal* 101: 1400-17 (**Jstor**); or Sadoulet and de Janvry, *Quantitative Development Policy Analysis*, 1995 (Johns Hopkins), ch. 7*; or Key, Sadoulet, and de Janvry, "Transaction Costs and Agricultural Household Supply Response," *AJAE*, 5/00, 246-59.
 2. Roumasset, J. (1995), *Behavior and Organization in Developing Agriculture (B&O hereafter)*, Part I, Chs. 2 (wedge model), 3, 5.
 3. Hutaserani and Roumasset (1991), "Institutional Change and the Demographic Transition in Rural Thailand", *EDCC**

III. Development Microeconomics II: Organization

- A. Choice of contracts in space and time
- B. Government intervention in land, labor and credit markets (e.g., land reform, usury laws and insurance)

- C. Induced institutional change
- D. Research topics: Crop insurance revisited; Collateral confusion & the case against land titles
- E. Readings
 1. Ch. 1, 2, 12, 15, 18 in Dercon (risk, insurance, and consumption smoothing, erosion of informal social security, financial development and micro credit).*
 2. WDR, ch 5.
 3. Handbook, v. 3 (chapters by Binswanger and on Rural Credit)*
 6. Roumasset, J., *Behavior and Organization in Developing Agriculture, Part II*, chs. 4-12 (version of 7 also available as “Explaining Diversity in Agricultural Organization: An Agency Perspective,” U. Minnesota Econ Dev Bulletin, 94-3
(http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=1760)
Also “Agricultural Development Thinking: Fads, Fancies, Fallacies, and Frontiers,” www.economics.hawaii.edu/research/seminars/05-06/12_02_05.pdf
 7. R’set (1995). “The Nature of the Agricultural Firm.” JEBO. Vol 26, 1-17. “Agency Costs and the Ag Firm,” (w/M. Uy), Land Econ, 7/87 (in ch. 7).
 8. Townsend, ch 9 in B&U II.*
 9. James, “Migration and the Evolution of Tenure Contracts in Newly-Settled Regions,” *J.Dev.Econ*, 14 (1984), 147-162.
 10. Mookherjee: 8, 10, 12, 15, 16.*
 11. R’set, “The Welfare Economics of Rural Credit Markets and the Benefits of land Titles,” report to the World Bank, 1986 and Review of Floro and Yotopoulos, *Informal credit markets and the new institutional economics: the case of Philippine Agriculture* in JEL, 12/92.
 12. Deweaver and R’set, Beyond Stiglitz, A Dynamic Theory of Share Tenancy (see econ department seminar archives and <http://www.economicsbulletin.com/2002/volume15/EB-01O10001A.pdf>).
 13. Singh, “Theories of Sharecropping,” Ch 2 in B&U I*; Conning and Robinson(2005), “Property and the Political Organization of Agriculture” (note stylized facts) <http://urban.hunter.cuny.edu/%7Econning/papers.html>* (see also 19 below).
 14. Banerjee et. al., Ch 6 (credit coops) in B&U I.*
 15. Conning and Udry, “Rural Financial Markets in Developing Countries,” http://urban.hunter.cuny.edu/%7Econning/papers/Rural_Finance.pdf, see also “Why Isn’t There More Financial Intermediation in Developing Countries?,” at <http://ideas.repec.org/p/htr/hcecon/214.html> * (look at the list of downloadable references!) and other papers at <http://urban.hunter.cuny.edu/%7Econning/papers.html>*
 16. Besley, “Savings, Credit, and Insurance,” Handbook, ch 36 or “How do Market Failures Justify Interventions in Rural Credit Markets,” World Bank Research Observer 9, 1 (1995).*
 17. Morduch, J. (1999), “The Microfinance Promise,” JEL, 37(4), 1569-1614.

Settled

18. Banerjee, Gertler, Ghatak (2002), "Empowerment and Efficiency: Tenancy Reform in West Bengal," *JPE*. 110, 239-280; see also Ghatak's CV at <http://sticerd.lse.ac.uk/dps/adds/ghatak/cv-lse-sept02.pdf>
19. World Bank (Deininger), Land Policies for Growth and Poverty Reduction www.amazon.com/gp/reader/0821350714/ref=sib_dp_pt#reader-link *
20. WDR '08 background papers by Deininger, Otsuka, and Lybert.

IV. Development Microeconomics III. Specialization, Intensification, and the Evolution of Markets: An Organic Theory of Economic Development

- A. Yang, *Development Economics* (introduction by Sachs), esp chs 1,3, 4, 9, 10, 14.
- B. Ng, Sun, Gilles, Buchanan at <http://www.worldscinet.com/dltc/dltc.shtml>
See also Sachs, Yang, and Zhang, "Globalization, Dual Economy, and Economic Development" and other papers on agglomeration economies, division of labor, specialization, exogenous vs. endogenous comp. advantage at <http://www.buseco.monash.edu.au/depts/eco/cireo/> *
- C. Roumasset et. al., "Specialization and Coevolution of Agricultural Mkts," IRIS WP 165, 1995 (see also "The Microeconomics of Agricultural Development in the Philippines," UH WP 02-10, especially discussion of figures 3 and 4); "Rural Institutions, Agricultural Development, and Pro-Poor Economic Growth," *Asian Journal of Agriculture and Development*, 1, 1, 61-82 (June, 2004). "Labor: Decisions, Contracts, and Organization," (w/ Sang Hyop Lee) forthcoming in *Evenson and Pingali, Handbook of Agricultural Economics III* (Elsevier).
- D. Foley, Stabilization of human population through increasing returns, *Economics Letters* 68 (2000) 309-317*
- E. Day, The Rise and Fall of Manorialism* Note connection to Coasean firm.
- F. James and R'set, "How to Facilitate or Stifle Economic Development: The Role of Agriculture in Indonesia and the Philippines," *Southeast Asian Journal of Agricultural Economics*, Vol. 1, No. 2, (December 1992)*
- G. North, "The New Institutional Economics and Development" and "Transaction Costs Through Time" <http://ideas.repec.org/e/pno11.html>
- H. Tarui&R'set, "Governing the Resource." Kaiser&R'set, Coasean Econ and the Evolution of Marine Property. Note connection to Coasean firm.
http://www.economics.hawaii.edu/research/seminars/03-04/04_16_04.pdf
- I. R'set, "Population and Agricultural Development," *The Palgrave Dictionary of Economics*, 2007. Available as UH WP 07-2.
- J. Copeland and Taylor, Trade, Tragedy, and the Commons. Also Dixit, Lawlessness and Econ on Ostrom (approx 3 pages).
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=602723

V. Poverty-alleviation policies

- A. Banejee, "Two Poverties" (in Dercon)
- B. Lipton, "Pro-Poor Growth: the Renewed War on Poverty," May, 2001, or Eastwood and Lipton http://www.adb.org/Documents/Periodicals/ADR/ADR_Vol_18_2.pdf
- C. http://poverty.worldbank.org/files/15174_Ravallion_PPG_Primer.pdf*
- D. Ray, ch. 7&8*
- E. Fabella, R., ch. 4 in Balisacan, Arsenio and Shigeaki Fujisaki, eds. *Causes of Poverty: Myths, Facts and Policies: A Philippine Study*, U. of the Philippines Press;* and Roumasset, review of same, *APEL* 5/2001.

- F. R'set, "The Role of Agriculture in Pro-Poor Development: A Philippine Perspective" (see also "A New Institutional Approach to Pro-Poor Agricultural Development," esp. "Stop, Push, Facilitate").
- G. Conning on safety nets,
<http://urban.hunter.cuny.edu/%7Econning/papers/CBT.pdf> , see also
<http://urban.hunter.cuny.edu/%7Econning/papers.html> *

VI. Sustainable growth and development

- A. Weitzman, in *QJE*, 1976, 65-94*
- B. Endress, Roumasset, and Tzou, A Koopmans approach to sustainable development (<http://www2.soc.hawaii.edu/econ/workingpapers/WP%2002-4.pdf>) or Sustainable Growth w/o Constraints (<http://www2.soc.hawaii.edu/econ/workingpapers/009abstract.html>)
- C. Endress and Roumasset, *J. of the Asia Pacific Economy* or "The Yin and Yang of Sustainable Development"
- D. Dasgupta, & Maler (1993), "Poverty, Institutions, and the Environmental-Resource Base," *Hndbk, Vol. 3**
- E. B&U, ch. 13*
- F. Rset, review of Opschoor, J(Hans). B., Kenneth Button, and Peter Nijkamp, eds. *Environmental Economics and Development, American Journal of Agricultural Economics*, Aug. 2001, 796-799.
- G. Krautkraemer, J., (1994), "Population growth, soil fertility, and agricultural intensification," *J. Dev. Econ.*, 44, 403-428.
- H. Pender, "Population growth, ag intensification, induced innovation, and sustainability: an application of neoclassical growth theory," *Ag Econ* 19; (1998); "Rural population growth, ag change and natural resource management in dev countries: Honduras,"*
- I. *World Dev Report*, 2003, selected chapters*
- J. Research topic: Combine B and G

VII. (1st) Second-Best Policy Analysis

- A. Benefit cost analysis
- B. Applied general equilibrium approaches to policy analysis
- C. Infrastructure and pricing policies
- D. Spatial and Temporal Consequences of Intervention
- E. Research topics: Replicate F5 or F6
- F. Homework: Rashid et al. (2005) conclude that there is no longer a case for parastatals in Asia. Was there ever a good case? (two pages plus diagrams/references).
- F. Readings
 1. Squire, L. (1989), "Project Evaluation in Theory and Practice," in Chenery and Srinivasan (eds), *Handbook of Development Economics Vol II*, Amsterdam, North-Holland.*
 2. Roumasset, J. and Setboonsarng, S. (1988), "Second-Best Agricultural Policy: Getting the Price of Thai Rice Right," *Journal of Development Economics*, Vol. 28, pp. 323-340.

3. Clarete, R. and Roumasset, J. (1987), "A Shoven-Whalley Model of a Small Open Economy," *Journal of Public Economics*, Vol. 32, pp. 247-261.
4. Clarete, R. and Roumasset, J. (1990), "The Relative Welfare Cost of Industrial and Agricultural Policy Distortions: A Philippine Illustration," *Oxford Economic Papers*, Vol. 42, pp. 462-472*
5. Fujimura, M., Roumasset, J. and Russo (1995), "Shadow Exchange Rates, Conversion Factors, and the Equivalent Variation Foundations of Project Evaluation"*
6. Kratz and R'set, "Trade Diversion, Excess Storage, and State-Trading Enterprises: Rice Markets in the Philippines," (pdf, 6/01; especially graphs on optimal storage, trade, and prices)
6. Rashid et al. (2005), "Grain Parastatals in Asia: Why Do they Have to Change Now?" <http://www.ifpri.org/divs/mtid/dp/mtidp80.htm>*
7. "Microeconomics of Ag Dev in the Philippines," section 3.
8. Galiani et al., (2005), "Water for Life: the Impact of Privatization of Water Services on Child Mortality," *JPE*, Feb.

VIII. Trade Promotion, Asian Miracles/Debacles, Globalization, and 3rd best policy reform

- A. Ray, chs. 16-18*
- B. Rodrik, D. (1995), "Trade and Industrial Policy Reform," *Handbook* and/or "Paradoxes of the successful state" *European Econ Rev* 41 (1997) 411-442*
- C. World Bank, *East-Asian Miracle*, 1993*
- D. Krugman, "The Myth of Asia's Miracle," *Foreign Affairs*, Nov/Dec, 1994*
- E. Stiglitz and Yusuf, ch. 13.
- F. Roumasset, Ch. 1 in Roumasset and Barr, *The Economics of Cooperation: East Asian Development and the Case for Pro-Market Intervention*, 1992.
- G. Harley, "A Review of O'Rourke and Williamson's *Globalization and History*," *JEL*, 12/00 or review of three Williamson papers in *The Economist*, 4/20/96.*
- H. Power, "Role of Protection..." *EAER*, 6/72 and *Tariff Policy Guidelines*, 1976.
- I. Roumasset, "The Political Economy of Corruption"
- J. Excerpts from Dixit and Laffont*
- K. Balisacan&R'set* and B&O, ch. 11.
- L. World Dev Report 2002, chs. 5&7*
- M. Easterly, *Quest for Econ Growth*, ch on econ of scale, matching, and circles*
- N. Park et. al., "In Search of a New East Asian Development Paradigm: Governance, Markets and Institutions"*
<http://www.fondad.org/publications/diversity/Fondad-Diversity-Chapter12.pdf>
- O. R'set, "Blackhole Security," WP 00-5
<http://www.economics.hawaii.edu/research/workingpapers/005abstract.html>,
summary and blackhole diagrams available in WP 02-10, at
http://www.economics.hawaii.edu/research/workingpapers/WP_02-10.pdf
- P. Research topic: combine I and J.