Course Description

Economic Development Policy concerns the nature and consequences of policies designed to promote welfare-augmenting growth and structural change. This requires a microanalytic 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 of Econ 611 in 2005 will be contrasting the interventionist Development Economics of Bardhan, Udry, Stiglitz and others with the more fundamental New Institutional Economics and New Classical Microeconomics approaches.

Recommended texts
Bardhan, Pradhan and Christopher Udry, Development Microeconomics, Oxford, 1999

References
Yang, Development Economics: Inframarginal vs Marginal Analysis, Blackwell, 2003
Meier and Stiglitz, Frontiers of Development Economics, 2001
Stiglitz, Whither Socialism and Globalization and Discontents
Sen, Development as Freedom

Course Outline and Readings (items with * are optional; additional readings will be designated as the course progresses)

I. Introduction: The nature and causes of economic development
   A. Stylized facts of development. Ray, Ch. 2*
   B. Roumasset, “Development is Letting Go of Fear”
C. Krugman, Paul, “The Fall and Rise of Development Economics”
   http://www.pkarchive.org/theory/dishpan1.html
D. Murphy et. al., “Industrialization and the Big Push,” ch 7 in B&U I*
E. Power, "Role of Protection…," EAER, 6/72*
   Economic Review, 51*
G. Scitovsky, “Two concepts of external economies,” JPE 62(2), 1954, pp. 143-151*

II. Welfare-theoretic Foundations of Development Policy
   Approach,” (handout)
B. Appendices
      Pertinent to the Choice of Market versus Non-market Allocation,” in the
      Analysis and Evaluation of Public Finance: the PPB System.
      Theory of Contracts,” American Journal of Agricultural Economics, Vol
      61, No. 4: 640-647
      Appendix to Exposure Trading, an East-West Center Working Paper)*
   http://www.nybooks.com/articles/15630 ; ch 4 from Stiglitz, Whither Socialism
D. Lucas, lecture 3; also available in Bardhan and Udry I and as
E. Ray, Ch. 5*

III. Development Microeconomics I: Behavior
A. Household decision-making w/transaction costs
B. Decision-making among low-income farmers
C. Readings
   1. Ray, ch. 9*
   2. Roumasset, J. (1995), Behavior and Organization in Developing
      Agriculture, Part I, Chs. 2, 3; 4*, 5.
   3. Hutaserani and Roumasset (1991), “Institutional Change and
      Demographic Transition in Rural Thailand”, EDCC
      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
D. Research topic: Prove conjecture in R’set, ch. 2 and reassess Fafchamps, Key et. al.

IV. 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. Ray, Ch. 11-15*
2. Bardhan and Udry, chs. 4 and 6-9.
3. Hoff, K. et. al. (1993) (eds) The Economics of Rural Organization: Theory, Practice and Policy, chs. 4-6, Oxford University Press*
5. Handbook, v. 3 (chapts. by Binswanger and on Rural Credit)*
8. Lipton, “Ag. Risk, Rural Credit, and the Inefficiency of Inequality,” in R’set et. al., Risk, Uncertainty, and Ag. Development (1979).*
13. Conning on microfinance*
(http://wso.williams.edu/%7Ejconning/papers.html )
15. Gertler and Gruber, Insuring Consumption against Illness, AER, 3/20*
16. Townsend, ’95 and Murdoch, 2002 (see G&G above)*
18. Research topics
IV. Development Microeconomics III: Specialization, Intensification, and the Evolution of Markets

A. Yang, Development Economics (introduction by Sachs), esp chs 1, 3, 9, 14.
B. See also Sachs, Yang, and Zhang, Globalization, Dual Economy, and Economic Development; “Endogenous Transaction Costs and Division of Labor” and other papers on agglomeration economies, division of labor, specialization, exogenous vs. endogenous comp. advantage at http://ceiba.cc.ntu.edu.tw/cnc/article/yang-list.htm
C. Roumasset et. al., Specialization and the Co-Evolution of Agricultural Markets, IRIS WP, U. of Maryland, 1998
E. Day, The Rise and Fall of Manoralism
I. North, http://ideas.repec.org/e/pno11.html
J. Research topics: combine A and C; do same for evolution of financial mkt.

VI. Poverty-alleviation policies

B. Ray, ch. 7&8
E. B&U, ch. 11.
F. Conning on safety nets, http://wso.williams.edu/~jconning/papers.html
G. The cases for safety nets and community participation; food stabilization policies
VII. 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*
   Base,” *Handbk, Vol. 3*
E. B&U, ch. 13*
   intensification,” *J. Dev. Econ.*, 44, 403-428.
H. *World Dev Report*, 2003, selected chapters*
I. Research topic: Combine B and G

VIII. (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. Readings
   6. Kratz and Roumasset, “Trade Diversion, Excess Storage, and State-
      Trading Enterprises: Rice Policy in the Philippines,” (pdf, 2000)*
X. Trade Promotion, Asian Miracles/Debacles, Globalization, and 3rd best policy reform
A. Ray, chs. 16-18*
C. World Bank, East-Asian Miracle, 1993*
E. Stiglitz and Yusuf, ch. 13 or IIC above.*
F. Roumasset, Ch. 1 in Roumasset and Barr, The Economics of Cooperation: East Asian Development and the Case for Pro-Market Intervention, 1992*
H. Power, "Role of Protection…," EAER, 6/72
I. Roumasset, “The Political Economy of Corruption”
J. Excerpts from Dixit and Laffont*
J. Balisacan&R’set* and B&O, ch. 11
K. World Dev Report 2002, chs. 5&7*
L. Easterly, Quest for Econ Growth, ch on econ of scale, matching, and circles*
M. Research topic: combine I and J.

Grading
- Midterm (3/11): 24%
- Paper¹: 24%
- Final: 36%
- Homework+citizenship: 16%

Office hrs.
- Wed, 1:30-3 and by appt.

Topics and tentative schedule
- Weeks 1-3: Stylized facts of development. Market failure, govt. failure and the role of govt. in econ dev (theorems 1-5, justice, three levels of abstraction, positive and normative, tech and pec externalities). Coasean paradigm of economic development.
- Jan 18: Thm 3 (Coase).
- Jan 25: Prove theorems 4a, 4b. Lucas on productivity miracles.

While there are difficulties with measuring the contribution of learning to productivity growth, the evidence that learning on individual products is bounded is robust. A macroeconomic model of long-run

¹ Two-page (max) typed proposal due Feb 17. Paper due on date of penultimate class.
growth therefore has to account for the microeconomic restriction on learning possibilities. The natural way to do this is to combine new product introduction with bounded learning.

Lucas (1993) is a beautifully-written paper applying LBD to the question of aggregate economic growth and development (it is largely inspired by earlier work by Nancy Stokey and Alwyn Young, cited in the supplementary readings). His model combines the boundedness of new learning on new products with knowledge spillovers to new products, and contains a valuable message about how firms can experience growth miracles if they open themselves to new ideas.

Krugman's paper is an entertaining series of mini essays illustrating how learning by doing can cause temporary policies to have permanent consequences. We will focus on the section on what Krugman called the narrow moving bound, a parable about how temporary government interventions can make miracles.

**Background reading for Lucas (not required)**


Jan 27: Wedge model
Feb 1: Development microeconomics I (continued)