This seminar is a survey of development economics. It can be used towards a concentration in Asian Studies or Black Studies; students intending to do so must identify themselves in advance and develop Asian or African case material, respectively, in all papers.

Acknowledgement: This syllabus is largely derived from Prof. O'Connell’s syllabus for the Fall 2001 offering of the seminar. With his permission, Prof. Westphal used a somewhat changed version of that syllabus this past spring. For the Fall 2003 offering, some additional changes have been made in collaboration between us.

REQUIRED TEXTS

Stiglitz, Joseph E., Globalization and its discontents.

OTHER REFERENCES

For broader coverage and more case material, see the following books on General Reserve.

Note: # denotes that item is extensively used as supplementary text, especially toward end of the semester.

# Perkins, D., S. Radelet, D. Snodgrass, M. Gillis, and M. Roemer (2001), Economics of development, 5th ed.; hereafter, Perkins, et al. [Good coverage, market-oriented perspective. Note that previously this was Gillis, Perkins, Roemer and Snodgrass (1996), same title, 4th edition; the changes are pretty minor.]


# Sachs, J. D. and F. Larrain B. (1993) Macroeconomics in the global economy; hereafter, Sachs & Larrain. [Excellent on monetary and fiscal policy, stabilization, the balance of payments, and the debt crisis.]

World Bank (2003), World development report 2003: sustainable development in a dynamic world. [Earlier issues of the World Bank’s annual WDR series are on Honors Reserve; they cover a new topic each year and include an extensive Appendix with cross-country data.]

United Nations Development Program (2000), Human development report 2003: millennium development goals – a compact... to end poverty. [Annual report treats distributional and gender issues as central to development; extensive data. Earlier issues may be found in the library.]

You can also browse the Honors Reserve section for many useful references. There are good advanced surveys of most major development topics in the 4-volume Handbook of development economics (Honors Reserve) and useful short blurbs in the New palgrave dictionary of economics (Reference section). The appendix of Perkins, et al. has a useful list of additional readings by chapter. For an indication of what’s hot in development circles, see the World Bank's ABCDE series (Annual Bank Conference on Development Economics). EconLit, accessible from the Libraries web site, is useful as a guide to the journal literature. For browsing, the key journals are Journal of Development Economics, World Bank Economic Review, World Bank Research Observer, World Development, and Economic Development and Cultural Change; the latter three have the advantage of being considerably less technical. For data, begin with the Economics Department web page, which has a very useful set of data links. In the Reference section of the library you will find the World Bank’s annual World Development Indicators with general country economic data, the World Bank’s Global Financial Indicators with debt data, and the International Monetary Fund’s International Financial Statistics Yearbook with macroeconomic data. Check out worldbank.org and imf.org and other obvious websites.
COMMUNICATION

Communication and such will be decidedly low tech. Students are to email their seminar papers, as attachments, to others (instructor included) in the seminar; papers should be in Microsoft Word (with a doc suffix). Keep fancy formatting to a minimum for the sake of portability, and bring hard copies of all graphics to the seminar. Note Well: Seminar papers are ALSO to be given to the instructor in printed, hardcopy form; they should be placed in the box outside K209 (Westphal) or K206 (O'Connell).

SEMINAR REQUIREMENTS AND GRADING

Weekly seminars: An honors seminar is a collaborative exercise. Students are directly responsible to other students, who will be relying on their contributions. Therefore: All students are required to do all assigned reading each week. Read actively and come prepared to convey your understanding of the material.

Assigned exercises: Three (all, Wk 9; four, Wks 11,12) students who are not preparing seminar papers will, by working together, prepare complete answers to all assigned exercises for the week. (Written out answers are best, but they are not to be turned in, won't be graded as such.) The answer to each exercise will be fully explained in seminar by one of these students, the choice of which student being randomly determined, but such that each of three is called upon to provide the answer to at least one problem. Other students, especially those not preparing seminar papers, are strongly encouraged to work on the exercises at well; certainly at least to the point of having thought seriously about how they would go about accomplishing them. A part of the seminar's "core" consists of going over these exercises and exploring their ramifications.

Seminar papers: Each week (save two or three) there will be 2 student papers. These are to be no more than 2,000 words; format is to be Arial, 10 point, with 1 inch margins all around. Word count is to appear in upper left corner of the first page of the paper.
# Seminar papers must be emailed by noon on the day prior to the seminar; a hardcopy must be left for the instructor (in box outside office) by 3 pm the same day. Tardiness in delivering seminar papers will be reflected in your final grade (see statement of policies below)!
# In preparing your paper, do the assigned reading and also check Meier for relevant material. You are not restricted to these sources: be enterprising, it will be reflected in your grade!
# Approximately one-half hour will be devoted to discussing the topic of each student paper, starting with a five to ten minute well organized and delivered summary of the paper by its author.

Term paper: All students must write a paper of no more than 3,000 words (format & page count indication as for seminar papers) that provides a critical overview of development policy and performance in agriculture, industry, international trade, income inequality and poverty, or environment in some developing country (transition economies are ruled out). Country choices will be determined among students and the instructor; several students will work on each country, each on a different aspect. Topic outlines with starting bibliography must be approved by instructor by the start of Wk 6 seminar. The paper is due at the beginning of Wk 11 seminar. Students will present their papers in a roundtable discussion at the final seminar (week 13); 1-page "executive summaries" of papers are due prior to it and are to be read by all before discussion.

Grading: Each (of two) seminar paper: 10 %; Term paper: 30 %; Final exam: 40 %; Seminar participation, including performance on problem assignments, 10 %.

Instructor's Policies: Take careful note of the following.
Examinations: Students must take exams at the duly appointed times; a make-up exam will be given only in the case of a certified (by a Dean or Worth Health Center) emergency or medical excuse for having missed an exam.
Late assignments: Assignments are due at the beginning of class or at the time stated, as the case may be. Assignments turned in after the deadline will be marked down one "notch" (e.g., from A- to B+) per hour that they are late; an exception will be made only in the case of a certified (by a Dean or Worth Health Center) emergency or medical excuse.
On cheating and plagiarism: See the Student Handbook's statement regarding Academic Honesty. Cases of suspected plagiarism and cheating on exams will be reported to the Dean's Office for judicial action. In addition, the instructor has the automatic policy that any student whom he considers, on the basis of evidence available to him, to have engaged in plagiarism or cheating in any individually assigned work (i.e., in this course, exams and written reports – the actual writing of which must by the individual student's) will automatically receive No Credit for the course.
Clarification: Students are strongly encouraged to study together, jointly discuss their work in progress on papers (whether seminar or term), and so on. The point is that the actual writing of the paper – the written product, so to say – must be the individual student's.
OVERVIEW OF TOPICS

Wk 1: Economic development: what is it?
No papers this week.

Wk 2: Economic growth, 1
Papers: 1, Africa’s economic stagnation; 2, The East Asian “miracle” study

Wk 3: Economic growth, 2
Papers: 1, Natural resources, conflict and development in Africa; 2, The importance of institutions

Wk 4: Structural transformation; industrialization
Papers: 1, Korean industrialization; 2, Staple commodities and export-led growth

Wk 5: Income distribution
Papers: 1, Redistribution with growth; 2, Populism-induced macro policy

Wk 6: Poverty and human resources
Papers: 1, Targeting poverty; 2, Educating girls

Wk 7: The informal sector; rural-urban migration
Papers: 1, The informal sector; 2, Issues in urbanization

Wk 8: International trade
Papers: 1, Korea’s experience with export-led growth; 2, Liberalizing fashions (mania?)

Wk 9: Agriculture: rural markets, present and missing
Papers: 1, The unimodal strategy; 2, Technological change and the green revolution

Wk 10: Globalization; technology transfer; multinational corporations; environmental sustainability
Papers: 1, Globalization and learning through trade; 2, Development and the environment

Thur, Nov 13: Attend J. von Braun’s (Director General, IFPRI) lecture; title TBA.

Wk 11: Macro 1 – current account, adjustment
Term papers due at beginning of seminar
Papers: 1, Commodity windfalls; 2, Structural adjustment fall-out

Wk 12: Macro 2 – monetary & fiscal policy
Sun, Dec 7, 5 pm: One page executive summaries of term papers due, by email to all

Wk 13: Roundtable discussion of development issues based on country studies

OVERVIEW OF STUDENT RESPONSIBILITIES

Weekly reading assignments AND participation in seminar discussion
Seminar papers, two
Assigned exercises, four times
Term paper
Final examination
ASSIGNMENT FOR WEEK ONE -- Economic development: what is it?

@ Read ch.s 1 and 2 in the Ray book, and section I.A. in Meier & Rauch. Come prepared to discuss the following questions:

# The term 'economic development' usually refers to some broadly desirable (set of) economic process(es) or goal(s) for a country. In practice, per-capita income levels are typically used to measure whether a country is 'developing' (e.g., the World Bank sometimes refers to its "Low-income" and "Middle-income" countries as the developing countries). To explore one alternative, do Exercise 7, ch. 2 of the Ray text - instead of finding a recent Human development report as suggested in Exercise 7, you can use Exhibits I.A.3 - I.A.5 of Meier and Rauch, which present the Human Development Index (HDI).

# Comparing real national income across countries is more difficult than you may think. Do comparisons at official exchange rates tend to under- or over-estimate the standard of living in developing countries? By roughly how much, for a low-income developing country? Now: Why? Explain the phenomenon in terms of cost differentials in rich and poor countries. To do so, do Exercises 1 and 2 in ch. 2 of the Ray text. Also read Section I.A. of Meier and Rauch and be ready to explain Exhibit I.A.2, p. 12. [Note: on p. 12, Ray's explanation in the sentence beginning "Because poor countries are poor …" is wrong! One of his few slip-ups in the book.]

@ Read ch. 2 (Perkins and Roemer, Differing Endowments and Historical Legacies) of Lindauer and Roemer (editors, Asia and Africa: legacies and opportunities in development -- copy on Honors Reserve, this seminar), and come prepared to discuss the following question: In terms of development level and prospects, what are the key differences between Africa today and Asia 40 years ago?

@ Be ready to discuss the following additional exercises from ch. 2 of Ray in seminar: 4, 6, 9.

For problem 4, use the following hint consistent with footnote 17: Suppose that X is a variable you are tracking over time (Mali’s GDP, your own height, etc) and that the value of X in year t is X(t). Then if X is growing at an annual rate of g percent (so that X’s annual growth rate is g/100), the value of X after T years have elapsed will be X(t+T) = (1+[g/100])^T X(t); where ^ denotes exponentiation. [Why is this formula valid?]

* Part (a) of the question asks you to set X(t+T) = 2*X(t) and solve for T given a value for g. You can solve for T by plugging in for X(t+T) from the equation just given, canceling out X(t), and then taking logs on both sides. This gives you T*ln(1+[g/100]) = ln(2). Then you can use the approximation that ln(1 + z) =~ z (this approximation is good if z is small). Thus T =~ 100*ln(2)/g (this equation is known as “the rule of 70”: plug in for ln(2) and you’ll see why).

* Part (b) asks you to use the fact that if X is the product of two other variables Y and Z (e.g., X could be nominal GDP, which is the product of real GDP and the GDP deflator) that are growing at annual rates gY and gZ, then X will be growing approximately at rate gY + gZ. Similarly if X is the quotient Y/Z, then the growth rate of X will be approximately gY - gZ.

* Part (c) asks you to write down a version of equation above in which T refers to months and therefore g is replaced by the monthly rate gm. Then you can derive the corresponding annual rate by using, as a second equation, X(t+12) = (1 + g) X(t), and then solving the two equations together without any approximations.

@ Based on the readings assigned above -- in particular, the various tables of data and indicators, along with the textual discussion of them, be prepared to share with the class: the four things that you didn’t know, but now do, that most surprised you about conditions in the less developed countries; two of these should be "negative surprises" (as in, "I didn’t realize things were that bad") and two of them should be "positive surprises" ("... were that good, or not that bad").

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ASSIGNMENT FOR WEEK TWO -- Economic growth, 1

@ Read Ray, ch. 3 and, in Meier & Rauch, ch. III Overview; Note III.1, Selections III.1&6, Comment III.2.

Also Easterly, Prologue and pp. 1 through 99.

Paper 1: Africa’s economic stagnation
Collier and Gunning claim that cross-country growth regressions and microeconomic studies tell a consistent story about the sources of slow economic growth in Sub-Saharan Africa. What are the leading themes of this story? Does the Africa 21st century book modify the Collier & Gunning diagnosis in any important way? In turn, these sources clearly reject the view that economic stagnation is Africa’s destiny. Do they succeed in identifying a set of domestic reforms that would substantially accelerate African growth over the next 10-15 years? Are you convinced; why?

* World Bank (2000), Can Africa claim the 21st century?

Paper 2: The East Asian “Miracle” study
Which East Asian countries experienced stellar or unprecedented economic development over the latter half of the 20th century? Does “one story fit all?” or are there some significant differences among this group of countries; if so, do they nonetheless cluster into distinct subgroups? In what ways was their development performance vastly superior to that elsewhere? What factors were responsible for their stellar performance?


Assignment for Week Three – Economic growth, 2

@ Read Ray, ch. 4 and Meier & Rauch, sections I.B and I.C.
Also Easterly, pp. 100 through 291.

@ Exercises – Ray: ch. 3, exercise 8; ch. 4, exercises 2, 9.

Paper 1: Natural resources, conflict and development in Africa
Cross-country evidence (post-1960) suggests that being endowed with a few lucrative export commodities is not particularly good for economic growth. Later we’ll encounter some of the well-known dangers of non-diversified commodity wealth, which include volatility in export revenues and the “Dutch disease” of slow development in potentially more dynamic sectors including agriculture and manufacturing. But Collier and associates point to a more explosive danger: where the institutions of governance are weak, commodity rents can provoke and sustain civil war. These authors refer to civil war as ‘development in reverse,’ suggesting that the burdens of civil war go far beyond those suffered by combatants. What are the costs of civil war and who bears them? What is the economic theory of civil war here? What role do ethno-linguistic or ethno-religious cleavages, which are strongly emphasized by Easterly and Levine in their analysis of African growth, play in the Collier et al theory? What evidence do Collier and company provide to support their key points? What interventions do Collier et al. consider both justified and necessary reduce the risk of civil war?


Paper 2: The importance of institutions
From the economists’ perspective, what are “institutions,” why do they exist, what useful roles do they play? Why are institutions important in the context of economic development? What distinguishes between institutions that are beneficial for development and those that are deleterious?


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ASSIGNMENT FOR WEEK FOUR – Structural transformation; industrialization

@ Read Ray, ch. 5 and Meier & Rauch, ch. II.

@ Exercises – Ray: ch. 5, exercises 3, 4, 9.

@ Paper 1: Korean industrialization
Some scholars believe that "selective intervention" by government played a crucial role in Korea’s successful industrialization after 1960. What industries did Korean policy favor over time, and what policy instruments were used? Was this “big push” industrialization? A “linkage” approach? Something different? Did selective intervention play a similar role in Taiwan; if so -- in some, most, or all respects?

@ Paper 2: Staple commodities and export-led growth
Hirschman (1977, see below) generalized his linkage approach to accommodate a special role for a dominant export-oriented natural resource (a "staple"). How can a staple set off cumulative growth? Did it happen in El Salvador? Why or why not?

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ASSIGNMENT FOR WEEK FIVE – Income distribution

@ Read Ray, ch.s 6 & 7 and Meier & Rauch, ch. VIII.

@ Exercises – Ray: ch. 6, exercises 1, 3; ch. 7, exercises 2, 5, 9, 11.
* Note: ch. 6, exercise 3(d), there is a typo – it should read (200,400,600,800); (125,25,125,75).

@ Paper 1: Redistribution with growth
What is the meaning of “redistribution with growth?” Does experience since the mid-1970s suggest that there is substantial scope, for a given level of foreign assistance, for raising the incomes of the poor via redistribution, rather than via a “growth maximizing, trickle down” strategy; if so, how? What accounts for the emphasis, both in Chenery et al. and in the contemporary revival of poverty-reduction strategies (e.g., under the banner of the Millennium Development Goals), on redistribution of investment, rather than of existing assets or consumption? Briefly, what forms of foreign assistance – redistribution at the international level – does the UNDP view as critical to achieving the Millennium Goals?
* UNDP (2003), Human development report 2003: millennium development goals..., especially, overview through ch. 3.

@ Paper 2: Populism-induced macroeconomic policy
Does the notion of “populism” provide important insights into the linkages between income and/or wealth distribution and economic growth in Latin America? Clarify the central ideas and develop a specific country example.
ASSIGNMENT FOR WEEK SIX – Poverty and human resources

@ Due at start of seminar: term paper topic outlines with starting bibliographies.

@ Read Ray, ch.s 8 & 9 and Meier & Rauch, ch. V.

@ Exercises – Ray, ch. 8, exercises 1, 3, 7; ch. 9, exercises 2, 6, 15.
* Hint: ch. 8, exercise 7 – construct 2 curves, one showing the income \( y \) required to support a work capacity of \( C \) (the good old capacity curve) and the other showing the work capacity required to earn an income of \( y \). Plot these on the same capacity-curve diagram, and use their relationship to answer the question.

@ Paper 1: Targeting poverty
Targeting government spending to the poor is difficult. Why? What works, and what doesn’t?
* Also in Public spending and the poor: Ch.s 8 (Public schools in rural Pakistan, by Alderman et al), 15 (Workfare in rural India, by Ravallion and Datt), 16 (Latin American targeting programs, by Grosh), and 18 (Social sector spending in Malaysia, by Hammer et al).

@ Paper 2: Educating girls
Should governments provide incentives for households to shift on the margin from educating male children to educating female children? If so, what (set of) market failure(s) justifies this government intervention?
* Journal of Human Resources, Fall 1993: Symposium issue on investing in womens’ human capital.

ASSIGNMENT FOR WEEK SEVEN – The informal sector; rural-urban migration

@ Read Ray, ch. 10 and Meier & Rauch, ch. VI (recall also VIII.A.5).

@ Exercises – Ray: ch. 10, exercises 3, 9, 10, 11, 12.

@ Paper 1: The informal sector
What activities come under the heading of the “urban informal sector” in developing countries? de Soto (1989) and others see this sector as the result of excessive regulation, taxation, and bureaucratic corruption; in short, of government failure. What is the evidence for this view? What are its policy implications? Its shortcomings?

@ Paper 2: Issues in urbanization
Important questions -- both positive and normative – are raised by the process of urbanization in developing countries. The surveys by Mazumdar and Hamer & Linn summarize what was known and thought about urbanization as of the mid-1980s. Becker & Morrison provide a comparatively up-to-date survey, one that nicely complements the earlier ones. What are the important issues relating to urbanization? Do the Lewis surplus-labor and the Harris-Todaro models taken together adequately summarize its causes and salient effects? Does urbanization enhance welfare – by raising productivity, by reducing the extent of poverty? Are mega-cities different from others in any critical respects? How, if at all, has the process of urbanization changed over the past several decades? Are the welfare effects of urbanization still perceived as they were some twenty years ago?

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ASSIGNMENT FOR WEEK EIGHT – International trade

@ Read Ray, ch.s 16 & 17 and Meier & Rauch, ch.IV, part A.

Also handout, “Trade policy as instrument of industrial strategy – important details.”

@ Exercises – Ray: ch. 16, exercises 2, 4, 6; ch. 17, exercises 3, 4, 5, 8, 10.

For ch. 17, exercise 5; add the following: Suppose that there is a single domestic producer of detergent who can operate at a scale comparable to the entire domestic market. This producer has an upward-sloping MC curve. In a diagram, identify the equilibrium price and quantity in the home market under the following three conditions:

- a) imports are prohibited completely and the firm acts as an Ec 1 monopolist (call this equilibrium price $p_M$);
- b) imports are available in unlimited quantities at the tariff-inclusive price $p_T = (1+t)p^* < p_M$, where $p^*$ is the world price and $t$ is the ad valorem tariff rate [Draw the foreign supply curve, which is horizontal at $p^*$, and the foreign supply facing consumers, which is horizontal at $p_T$. Make sure that $p_T$ is below the intersection of the MC curve and the market demand curve, so that imports would be positive if the domestic market were perfectly competitive. Now: what is the monopolist’s new MR curve? Hint: it is flat for a while and then jumps down to the old MR curve. Set MR = MC to find the equilibrium price and quantity, and call the amount imported in this case $M$];
- c) imports are restricted by a quota, to the amount $M$ obtained in part (b) Hint: If an amount $M$ is imported, then the domestic firm faces a residual demand curve that is shifted to the left by $M$ units. Draw this, together with its MR curve. Now set MR = MC again, to find the firm’s price and quantity. Call the equilibrium price in this case $p_Q$ and identify the total amount sold.

Explain why $p_Q > p_T$ and why consumers get less detergent under what seemed like an equivalent quota. Is the country as a whole better or worse off? Intuitively, what’s causing the tariff/quotas equivalence that would prevail under competition to break down here?

Now back up and consider the “tariffication” of quotas, which is their replacement with tariffs at rates equal to the gap between the quota-induced domestic price and the world price. This is often the first step in trade liberalization, and is considered a liberalization in its own right. In what sense is a country’s trade policy more “open” after tariffication than before? How is the answer different (if at all) depending on the degree of competition among domestic firms?

@ Paper 1: Korea’s experience with export-led growth

What kinds of specific policies did Korea’s government use to encourage exports and to pursue import substitution? How did these policies impact on the effective incentives for different kinds of production? Does it appear that incentive policies affected the direction of resource allocation? What additional, non-trade related, policies were used? What were the results of the full set of policies in terms of income growth, employment, efficiency of resource allocation, and other key indicators?

* Korean policy circa late ’60s, early ’70s..., obtain from the instructor.

@ Paper 2: Liberalizing fashions (mania?)

What constitutes trade liberalization? Why have developing countries liberalized so dramatically in the last 15 years? Is it possible to generalize about the requirements for success? What accounts for failed liberalization attempts in Africa? Are there limits to how far developing countries can or should go in liberalizing trade?

foreign trade through rose-tinted glasses, *Economic Journal*, pp. 208-222. The African project summarized in Oyejide, et al (see below) was designed to avoid some of the pitfalls of the Michaely et al. project.


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**ASSIGNMENT FOR WEEK NINE – Agriculture: rural markets, present and missing**

CAUTION: The work load for students not writing papers is significantly greater this week compared to past weeks! Hint: Schedule your studies and extra-curricular activities accordingly.

@ Read Ray, ch.s 11 (including appendices) & 12 and Meier & Rauch, ch. VII.

@ Exercises – Differ in nature from past weeks! The eight students not presenting papers are to be divided into four pairs. Each pair has the responsibility for one of the following assignments. Note, to be clear: Everyone reads ch. 12 in Ray; the pair responsible for it must present the assigned exercises; as stated below, pairs responsible for other chapters may use indicated exercises as they choose in their presentations.

* 1) Exercises – Ray: ch. 12: 1, 2, 3, 4, 8, 9.
  - Hint: exercise 1 – assume that supervisors hire in labor at $1000 per laborer.

Each of the following “exercises” entails reading the chapter indicated and preparing a 20 minute summary of the principle things to be gleaned from the chapter, the summary to be presented in class. The specific exercises indicated for each chapter need NOT be done; however, one or several of them may be of particular value as one seeks complete comprehension of the salient points made in the chapter.

* 2) Ray, ch. 13; exercises (optional) 1, 4.
  - Hint: exercise 4 -- in part (b), show that the non-labor income causes the market supply curve to shift everywhere to the right; in part (c), consider the total income of the original workers.

* 3) Ray, ch. 14; exercises (optional) 1, 4, 5, 10.
  - Hint: exercise 10 -- a coordination failure model; draw a diagram with the repayment rate, $\theta$, on the vertical axis, and the survival probability $p$ on the horizontal. Part (b) shows you how $\theta$ depends on $p$; draw the function $\theta(p)$ in the diagram; it has a vertical jump (at what value of $p$?). Part (c) shows you how $p$ depends on both $\theta$ and $G$, where $G$ is the government subsidy; draw $p(\theta,G)$ for two sample values of $G$. Use your diagram to analyze the multiple equilibria.

* 4) Ray, ch. 15; exercises (optional) 1, 3, 6, 7, 8.

@ Question for all to ponder: What do the matters dealt with in these chapters have to do with agricultural development qua development? Do the analytics and discussion presented in these chapters go beyond simply explaining the sources of conditions associated with peasant agriculture; do they provide the wherewithal from which policy needs to develop agriculture could reliably be identified and policies designed?

@ Paper 1: The unimodal strategy
What do we know about the relationship between farm size and productivity? Is the evidence powerful? Why do Tomich and company prefer the unimodal approach so strongly? Is land reform sufficient to secure the benefits they attribute to unimodal strategies?


@ Paper 2: Technological change and the green revolution
What are the components of the 'green revolution'? Was it the result of a market process? Why has it been limited to only a part of the third world? Which of its elements can be generalized without regard to geographic circumstances? Are innovations "induced" by economic circumstances? Do market forces guarantee that all socially warranted innovations will be realized? Is agricultural research profitable, and where should it be carried out?

* Hayami, Y. and V. Ruttan (1985), Agricultural development: an international perspective. Ch.s 3-5, 8, 9, 13 (skim 5 and 8). Make sure you read the 1985 edition.

** ASSIGNMENT FOR WEEK TEN – Globalization; technology transfer; multinational corporations; environmental sustainability

@ Read Ray, ch. 18 and Meier & Rauch, ch. IV, part B, & ch. X.

Also ch. 14, pp. 521-534, in Perkins, et al.

For background information on foreign investment patterns, see UNCTAD (1999), World investment report 1999: foreign direct investment and the challenge of development (Ec 181 Honors Reserve).

@ Exercises –

* 1) Drawing mainly on the Perkins et al. chapter, characterize the following statements as True or False, and explain (these questions draw on Bolnick and Abagaz (2001), Study guide and workbook for economics of development).
   a) There are very few developing countries where multinational corporations employ more than 1 percent of the labor force or where FDI exceeds 1 percent of GDP.
   b) None of the world’s largest companies originates in a developing country.
   c) In theory, FDI produces a technology transfer for the host country, but in practice the developing countries obtain virtually no technology benefits from dealing with MNCs.
   d) The vast majority of all cross-border investments made by MNCs go to developing countries offering large tax breaks.
   e) Most MNC investments in the developing countries go for manufacturing activities that take advantage of cheap labor.
   f) MNCs adopt production methods that are far more capital-intensive than those of domestic firms in the same industry.
   g) In recent years, developing countries have begun to capture more benefits from MNCs by “unbundling” MNC investment packages.

* 2) Reductions in transport costs and policy barriers created a major phase of globalization starting in the late 1950s and accelerating in the mid-1980s. What trends do we observe in international patterns of trade, factor mobility (labor and capital), and production? What we know about the impact of these developments on living standards in developing countries, and on income inequality within developing countries and globally? What concepts and analytical frameworks in economics are likely to be most critical in making sense of these developments?

* 3) How does Rodrik (in the article referenced below) characterize the current objectives of the WTO, and what reorientation does he advocate? What evidence underlies his view?

@ Paper 1: Globalization and learning through trade
Westphal argues that technology policy played a critical role in enabling Asian countries – with varied approaches – to seize the development opportunities afforded by the globalization following World War II. Summarize his argument and very briefly characterize the variation in approaches within the Asian group. Now: India and Argentina are briefly mentioned as having pursued technological development, but with limited success. Choose one of these countries, and within Westphal’s framework, compare its experience with that of the Asian countries. What do we learn about technology policy?


* Lall, S. (1987), *Learning to Industrialize: the acquisition of technological capability by India*. (Especially ch.s 1, 2, & 8 plus one case study chapter.)


@ Paper 2: Development and the environment

It is now widely agreed that development policy cannot neglect environmental concerns as it did until recently. Thus the broad objective of policy is now stated in terms of “sustainable development.” What is meant by “sustainable development?” Why is progress toward its achievement a matter of current urgency: what are the principal environmental problems that require attention, what are the principal assets that require proper management? Why are institutional changes necessary to progress toward achieving sustainability? What kinds of institutional changes are needed; to what extent are these changes likely to take the form of newly created markets? How are these changes to be achieved?


* Perkins, et al., Ch. 6.

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ASSIGNMENT FOR WEEK ELEVEN – Macro 1: Current account, adjustment

@ Due at start of seminar: term papers.

@ Read ch.s 6, 21, & 22 in Sachs, & Larrain.

@ Exercises –

Note: In a departure from past practice, this week and next four students will work jointly on the exercises.

* Sachs & Larrain: ch. 6, problems 1, 2, 4, 7 [omit the large open economy case]; ch. 21, problems 2, 4, 6, 8, 10; ch. 22, problems 1, 4, 8.


@ Paper 1: Commodity windfalls

What is the “Dutch disease”? Is it always a disease? What does the permanent income hypothesis suggest as a rule of thumb for handling commodity windfalls? Why do countries so often seem to depart from the permanent income hypothesis? Develop an example of mismanagement and draw lessons.


* Gelb, A. and associates (1988), *Oil windfalls: blessing or curse?*

@ Paper 2: Structural adjustment fall-out

Changes in government spending patterns are often viewed as playing a key role in determining the distributional effects of stabilization and structural adjustment programs. What do we know, based on experience since the early 1980s, about the pattern of such changes, and their impact on the poor? Are there ways in which governments can protect the poor during reforms?


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ASSIGNMENT FOR WEEK TWELVE – Macro 2: monetary & fiscal policy

@ Read ch.s 12 & 13 (in the latter, pp. 476-511 only) in Perkins, et al.

Also ch.s 10, 11 (11-1 carefully!), and 23 in Sachs & Larrain.

And Meier & Rauch, ch. IX.

@ Exercises –

* 1) Overview of fiscal policy – Drawing on Perkins, et al. ch. 12:
   a) What are the stylized characteristics of government spending and taxation in developing countries as compared to industrial countries?
   b) What’s a good tax system?
   c) What’s the big attraction of VATs for developing countries?

* 2) Macroeconomics of deficit finance – Drawing on Fischer and Easterly (reference below), explain each of the following statements:
   a) “Each way of financing government spending has its own macroeconomic pathology if pushed too far.”
   b) “Countries that achieve faster economic growth can actually run larger fiscal deficits without adverse macroeconomic consequences. Slow growers, equivalently, find themselves under tighter financing constraints.”
   c) “The inflation tax is handy for short-term, unanticipated financing needs, but there are limits to how much deficit finance a government can obtain via the inflation tax over the medium to long term.” (S&L section 11-2 may also be helpful but is not required.)

* 3) Financial repression and liberalization – The policy syndrome Perkins, et al. define as “shallow financial strategy” is more often termed “financial repression.” Drawing on Perkins, et al., ch. 13:
   a) What is financial repression, why was it widespread among developing countries until the 1990s, and what do we know about its results in terms of financial deepening and growth?
   b) Why was achieving positive real interest rates viewed as an important objective of financial liberalization or “deep financial strategy”? Are high real interest rates a good thing?

* 4) Choice of Exchange Rate Regime, drawing on S&L, ch. 10 – “A country can choose the path of its exchange rate over time (e.g., a fixed peg, or a crawling peg), or it can choose the path of its money supply over time (e.g., via open market operations designed to influence domestic interest rates). But it can’t choose both independently for very long. Either the exchange rate regime must be subordinated to monetary policy, or vice-versa.” Explain this statement. To do so, use the model of monetary equilibrium to show what happens to the balance of payments if there is high capital mobility and a country chooses a monetary policy that is inconsistent with its exchange rate regime. Does this inconsistency problem disappear if there is not high capital mobility?

* 5) The IMF’s Financial Programming Model, drawing on S&L, ch. 10; caution, difficult! – A key feature of most IMF stabilization programs is a ceiling on domestic credit from the banking sector to the government. Use the model of monetary equilibrium to show that if you have predictions for real economic growth and for the velocity of circulation of money, then the only way you can achieve both an inflation target and a balance-of-payments target given these projections is to place a ceiling on the change in domestic credit. Hint: Show how you can use the growth and velocity predictions and the inflation target to determine the “program-consistent” change in money demand. Then use the central bank’s balance sheet to show that a domestic credit ceiling is required to reconcile this change in money demand with the balance of payments target.

* 6) BOP crises; drawing on S&L, ch. 11, section 11-1 –
   a) “So-called ‘first-generation’ models of balance of payments crisis are typified by the Krugman (1979) model outlined by S&L. In these models, crisis is ‘driven by the fundamentals’ in the sense that there is a clear inconsistency between macroeconomic policy and maintenance of the exchange rate regime.” Explain this
statement, by tracing out the evolution of a balance of payments crisis over time in the Krugman model. Hint:
the underlying model of monetary equilibrium is exactly the one in ch. 10.
b) Now distinguish this “first generation” balance of payments model from the “second generation” models of
self-fulfilling creditor panic, as outlined in Perkins et al., ch. 14, pp. 566-67 (from last week). What observable
differences would there be between the two versions? Does the second-generation version have different
policy implications?

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ASSIGNMENT FOR WEEK THIRTEEN – Round table discussion of development issues

@ Due by 5 pm on Sun, Dec 7 by email to all in seminar: one page executive summary of term paper.

@ Read Stiglitz, Globalization and its discontents.

@ Prepare for the roundtable discussion:

* Create a list (not to exceed one page, double-spaced, 10 point Arial font, 1 inch margins all around) of what
you consider to be THE most important elements in appraising – or evaluating -- any developing country’s
performance over time, this to be done with a view to THE most significant issues of policy amenable to policy
change, initiative, and / or reform. (In other words, for example, suppose you were a World Bank economist
arriving in some developing country, to which you’d never been, to advise the government during the course of
a two week stay; what features of the economy and its performance plus what specific areas of government
policy would you be most anxious to learn quickly about?) You are to hand in your list at the conclusion of the
seminar.

* With the one or two other students working on “your” country, prepare for a 20 minute discussion of its
development experience: you are to jointly deliver a 10 minute synopsis based in part on your executive
summaries; additionally, you will jointly be responsible for 10 minutes of Q&A following the presentation of the
synopsis.

* Read the executive summaries of your fellow students working on other countries. Be prepared to ask at
least one non-trivial salient question, about the respective country’s development performance, based on each
executive summary.

Note: The roundtable discussion will commence with a discussion based on your lists of elements, issues; the
objective is to arrive at a consensus list of key elements and issues. Country reports will follow, after which
there will be 30 minutes or so discussion of the Stiglitz monograph. The seminar will conclude with a free
ranging consideration, informed by the previous discussion, of critical elements and issues in economic
development; here the objective is to achieve some sense of the priority concerns that must be addressed to
arrive at an efficacious development strategy.