

Economics 181
SEMINAR IN ECONOMIC DEVELOPMENT
Swarthmore College

Prof. Steve O'Connell

Fall, 2008

Office hours: M 1030-1130, Th 11-noon

Kohlberg 205, x8107

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). Students who have taken Ec 81 can get only 1 credit for Ec 181.

REQUIRED TEXTS

Perkins, D., S. Radelet and D. Lindauer. 2006. *Economics of Development*, 6th Edition. WW Norton

Hayami, Y. and Y. Godo. 2005. *Development Economics: From the Poverty to the Wealth of Nations*. Oxford University Press

Meier, G. M. and J. E. Rauch. 2005. *Leading Issues in Economic Development*, 8th ed. Oxford University Press

Rodrik, D. 2007. *One Economics Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton: Princeton University Press

OTHER REFERENCES

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

Ray, D. (1998), *Development Economics*. Princeton University Press. [The most sophisticated undergraduate development text available. We used this 1998-2006. You may find it very useful as additional background.]

Sachs, J. D. and F. Larrain B. (1993) *Macroeconomics in the Global Economy*; hereafter, Sachs & Larrain. [Excellent though now somewhat dated on monetary and fiscal policy, stabilization, the balance of payments, 1980s debt crisis.]

Todaro, M. (1989 or latest), *Economic Development in the Third World* (New York, Longman, Inc.) [Left-of-center text.]

United Nations Development Program (annual) *Human Development Report*. [Treats distributional and gender issues as central to development; extensive data. Earlier issues may be found in the library.]

World Bank (annual), *World Development Report*. [Series is on Honors Reserve; the WDR covers a new topic each year and includes an extensive appendix with cross-country data.]

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). 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 library web site, is a searchable index of 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 less technical). For data, begin with the Economics Department web page, which has some useful data links. Via Tripod you can find the World Bank's annual *World Development Indicators online* with general country economic 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.

SEMINAR REQUIREMENTS AND GRADING

Weekly readings: An honors seminar is a collaborative exercise in which students are directly responsible to each other. Assignments must be completed in advance of each week's seminar. Read actively and come prepared to convey your understanding of the material.

Assigned exercises: All students are required to complete each week's problem set, but students writing seminar papers for a given week will be given a 'waiver' – i.e., they don't have to be ready to present their solutions. Students are encouraged to work together on the exercises.

Seminar papers: Most weeks there will be 2 student papers, which will be read in advance by all participants. We'll devote between 20 and 30 minutes to each paper, starting with a well-organized 5-10 minute summary of the paper by its author. Here are ground rules for writing your paper:

- As soon as you have your assignment, check for the assigned readings in the Ec 181 binders and, if they are not there, in the Tri-co journal or book collection. Do not assume they are in the binders.
- Seminar papers should be roughly 2,000 words. Please bring hard copies of all graphics to the seminar.
- Seminar papers must be emailed to all participants by 5pm on the day prior to the seminar. Please also leave a hard copy in my box (K205) by 6pm.
- In preparing your paper, do the assigned reading *and check Meier & Rauch for relevant material*. You are not restricted to these sources; be enterprising.

Term paper: All students must write a paper of roughly 3,000 words 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). We will choose countries collaboratively 1/3 through the semester, and several students will work on each country. Here are the ground rules:

- Topic outlines with starting bibliography are due at the Week 7 seminar.
- Paper are due on the **Sunday** of week 13 at 5pm, before Tuesday's seminar.
- Students will present their papers in a roundtable discussion at the final seminar (week 14).
- Students must email a 1-page "executive summary" of their paper to all participants by 5pm on the day before the final seminar.

Grading: Seminar papers, 10% each (= 20%); Term paper, 30%; Final exam, 40%; Seminar participation, including performance on problem assignments, 10%. The final exam will be the written honors exam, taken along with seniors who are sitting for their external exams.

IMPORTANT: on plagiarism: Students are reminded of the College's very strong commitment to Academic Honesty (see the Student Handbook). Plagiarism is defined as passing off the work of someone else as your own. It is very easy to avoid – see my web page for a discussion of how to cite source material in economics. The consequences of being caught plagiarizing or cheating in this seminar may include receiving No Credit for the seminar and being suspended or expelled by the College Judiciary Committee.

OVERVIEW OF TOPICS

Week 1 (Tues 9/2): *Overview*

No papers this week.

Week 2 (Tues 9/9): *Economic growth*

Paper #1, Convergence and divergence / Paper #2: Governance and productivity

Week 3 (Tues 9/16): *The role of the state*

Paper #1, Institutions and growth / Paper #2, Growth and poverty alleviation in India

Week 4 (Tues 9/23): *Human resources*

Paper #1, The East Asian miracle / Paper #2, Randomized evaluation of social interventions

Week 5 (Tues 9/30): *Modernizing agriculture*

Paper #1, The unimodal strategy / Paper #2, Agriculture in Africa

Week 6 (Tues 10/7): *Inequality and dualism*

Paper #1, Absorbing China's labor surplus / Paper #2, The urban informal sector;

FALL BREAK: Week of Tuesday October 13

Week 7 (Tues 10/21): *Trade policy and industrialization*

[Term paper outline w/ starting bibliography due at this seminar]

Paper #1, ISI in practice / Paper #2, Picking winners

Week 8 (Tues 10/28): *Technology, trade and globalization*

Paper #1, Acquiring technological capability / Paper #2, Trade and agglomeration

Week 9 (Tues 11/4): *Finance, insurance, and risk*

Paper #1, Mutual insurance and self insurance / Paper #2, Microfinance

Week 10 (Tues 11/12): *Public spending, development projects, and aid*

Paper #1, Poverty targeting / Paper #2, Cell phones and market integration

Week 11 (Tues 11/19): *Fiscal and Monetary management*

Paper #1, Populism / Paper #2, Commodity windfalls

Week 12 (Tues 11/25): *Capital flows and financial crises*

Paper #1, Sudden stops / Paper #2, Inflation targeting

Week 13 (Tues 12/3): *Roundtable discussion*

[1-page summary of term papers due by email 5pm the day before seminar]

[Term papers are due at this seminar]

WEEKLY ASSIGNMENTS

(PRL = Perkins, Radelet and Lindauer; M&R = Meier and Rauch (§ = selection); HG = Hayami and Godo)

WEEK 1, Tuesday 9/2 – Overview

Readings

PRL: Chapters 1 & 2.

M&R: Section I.A.

Exercises

See “Week 1 pset” on blackboard.

WEEK 2, Tuesday 9/9 – Economic growth

Readings (Beware – LOTS of reading this week.)

PRL: Chapter 3, Chapter 4:103-135.

Rodrik: Chapters 1-3.

HG: Chapters 5-6.

M&R: §I.B.2(China), §I.B.3(India), §II.6(divergence), Note I.C.2(endogenous growth).

Exercises

See “Week 2 pset” on blackboard.

Paper #1, Convergence and divergence: What empirical shortcomings in the original Solow model do Mankiw, Romer and Weil set out to address, and how does their ‘augmented Solow model’ do so? They claim to have developed a model that displays conditional convergence, incorporates a powerful role for human capital accumulation, and is consistent with the facts. Can you reconcile these claims with the titles of Lant Pritchett’s two articles?

Mankiw, N. G., D. Romer, and D. Weil. 1991. ‘A contribution to the empirics of economic growth’, *Quarterly Journal of Economics*.

Pritchett, L. 2001. ‘Where Has All the Education Gone?’, *World Bank Economic Review* 15(3): 367-391.

Pritchett, L. 1997. ‘Divergence, Big Time’, *Journal of Economic Perspectives* 11(3), Summer: 3-17.

Paper #2, Governance and productivity: Hall and Jones (1999) draw on the work of Sachs and Warner (1995) and Knack and Keefer (1995), who developed variables measuring various aspects of what might be called the ‘governance’ environment for growth. What measures did these other authors develop, and what linkages to long-run growth do they find? How do Hall and Jones use this work to characterize the long-run impact of governance on economic performance?

Hall, R. J. and R. Jones. 1999. ‘Why Do Some Countries Produce So Much More Output Than Others?’, *Quarterly Journal of Economics* 114(1): 83-116.

Sachs, J. D. and A. Warner. 1995. ‘Economic Reform and the Process of Global Integration’, *Brookings Papers on Economic Activity* 1: 1-95.

Knack, S. and P. Keefer. 1995. Institutions and economic performance: Cross-country tests using alternative institutional measures’, *Economics and Politics* 7, November: 207-227.

WEEK 3, Tuesday 9/16 – The role of the state

Readings (Beware – Another week with lots of reading.)

PRL: Chapter 5.

Rodrik: Chapters 5 and 6.

HG: Chapters 1, 2, and 8.

M&R: Note I.C.1(evolution of development economics), §IX.A.1(public policy and development), §CIX.A.1(planning), §CIX.A.2(governing the market), §IX.C.1(institutions), §IX.C.2(embedded autonomy), Note IX.B.1(rents), §IX.B.1(Krueger on rent-seeking), §IX.B.2(entry regulations).

Exercises

See “Week 3 pset” on blackboard.

Paper #1, Institutions and growth: What does Douglass North (who received his Nobel for the ‘new institutional economics’) mean by ‘institutions’, and what economic roles do they play? Why are institutions important in the context of economic development? We know that virtually all measures of institutional quality are positively correlated with per-capita income across countries, but we also know that correlation does not imply causality. What measures of institutional quality are Acemoglu *et al* interested in, and how do they establish that causality runs from these measures to income? How convincing do you find this argument?

North, D. C. 1991. ‘Institutions’, *Journal of Economic Perspectives*, pp. 97-112.

Acemoglu, D., S. Johnson and J. Robinson (2001), “The Colonial Origins of Comparative Development: An Empirical Investigation,” *American Economic Review* 91, December: 1369-1401.

Paper #2, Growth and poverty alleviation in India: Using evidence from India, Aghion and Armendariz de Aghion (2006) argue that factors emphasized in endogenous growth theory also play a central role in the evolution of poverty. What are these factors? What features of India’s experience does this approach help explain? Does this approach have implications for where policy should focus if it seeks sustainable reductions in poverty?

Aghion, P. and B. Armendariz de Aghion (2006), “New Growth Approach to Poverty Alleviation,” in A. V. Banerjee, R. Benabou, and D. Mookherjee, eds (2006), *Understanding poverty* (Oxford: Oxford University Press): 203-230:73-83

Eswaran, M. And A. Kotwal (1994), *Why Poverty Persists in India* (Delhi: Oxford University Press)

WEEK 4, Tuesday 9/23 – Human resources

Readings

PRL: Chapters 7 – 9.

HG: Chapter 3.

M&R: §IV.C.1(economics of population growth), §IV.C.2(demographics in SSA), §IV.D.2(missing women), §IV.B.2(worms), Note IV.A.1(3 views of education), §IV.A.1(economic impact of education), §IV.A.3(Duflo on Indonesia).

Exercises

See “Week 4 pset” on blackboard.

Paper #1, Education in the East Asian miracle: The East Asian ‘miracle’ is the conjunction of very rapid growth and steady or falling income inequality over much of the post-1960 period. Birdsall, Ross and Sabot place human capital formation at the center of their account of the miracle. What is their argument? With respect to the role of human capital, what support (or not) do you find for their arguments in the World Bank’s Miracle study?

Birdsall, N., D. Ross and R. Sabot. 1995. ‘Inequality and Growth Reconsidered: Lessons from East Asia’, *World Bank Economic Review* 9(3), September: 477-508.

Page, J. M. 1994. ‘The East Asian Miracle: An Introduction’, *World Development*, pp. 615-625.

World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. [This is lengthy; ‘ignore’ anything not directly relevant to this assignment.]

Paper #2, Randomized evaluation of social spending: What is randomized evaluation, and what are its advantages over alternative approaches to assessing the impacts of social spending? Explain the design of the

'worms' study, paying attention not only to the role of randomization but also to how the authors handled 'third-party' treatment effects, i.e., externalities, that would otherwise have produced misleading results.

Duflo, E. and M. Kremer (2003), "Use of randomization in the evaluation of developmental effectiveness," July. http://econ-www.mit.edu/faculty/download_pdf.php?id=759

Miguel, E. and M. Kremer. 2004. 'Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities,' *Econometrica* 72 (1), January: 159-217.

WEEK 5, Tuesday 9/30 – Modernizing agriculture

Readings

PRL: Chapter 4:136-end, Chapter 16.

HG: Chapter 4.

M&R: §II.2(Lewis on division of the world), §VII.A.1(tropics falling behind), §VII.B.5(agricultural household model), §VI.B.1(Lewis 1954), §II.3(Matsuyama on industry and agriculture), §VII.A.2(agricultural development strategies), §VII.A.5(land reform).

Exercises

See "Week 5 pset" on blackboard.

Paper #1, The unimodal strategy: What do we know about the relationship between farm size and productivity? Is the evidence powerful? What is the 'unimodal strategy' and why do Tomich and company prefer it so strongly? Is land reform (transfer of large holdings to poor farmers) necessary or sufficient to secure the benefits they attribute to unimodal strategies?

Tomich, T. P., P. Kilby, B. F. Johnston. 1995. *Transforming Agrarian Economies: Opportunities Seized, Opportunities Missed*. (Especially Chapters 4, 5, & 10.)

Skim the following as useful for additional perspective: Timmer, P. 1988. 'The agricultural transformation', Chapter 8 in H. Chenery & T.N. Srinivasan, *Handbook of Development Economics* 1, pp. 276-331.

Paper #2, Agriculture in Africa: Bates (1981) appealed to political-economy arguments to explain heavy discrimination against export agriculture in a number of African countries after independence. During the 1980s, the World Bank sought to liberate the agricultural sector throughout Sub-Saharan Africa from the damaging clutches of government. Conditional loans called for the removal of export taxation, the liberalization of agricultural marketing, and the devaluation of overvalued exchange rates. Reform was cumulatively substantial (*Adjustment in Africa*). But the agricultural sector has not taken off. What are the deeper constraints, according to Binswanger and Hayami and Platteau?

Bates, R. H. 1981. *Markets and States in Tropical Africa*. Berkeley: University of California Press.

Binswanger, H. P. 1990. 'The policy response of agriculture', in Proceedings of the World Bank Annual Conference on Development Economics, 1989. Washington, D.C., The World Bank.

Hayami, Y. and J.-P. Platteau. 1998. 'Resource endowments and agricultural development: Africa versus Asia', In Y. Hayami and M. Aoki, eds. *The institutional foundations of East Asian economic development: Proceedings of the IEA conference held in Tokyo, Japan*. IEA Conference Volume, no. 127. New York: St. Martin's Press; London: Macmillan Press; in association with International Economic Association: 357-410.

WEEK 6, Tuesday 10/7 – Inequality and dualism

Readings:

PRL: Chapter 6.

HG: Chapter 7:191-223.

M&R: §VIII.A.1(Kuznets), §VIII.A.4(global inequality patterns), Comment VIII.A.2(evidence for inverted U), §VIII.C.1(China), §VIII.C.2(Indonesia), §II.5(Engerman/Sokoloff on Latin America), §VIII.B.2(Alesina/Perotti), §VI.A.2(urban primacy), Sections VI.B.2 – VI.B.5.

Exercises:

See “Week 6 pset” on blackboard.

Paper #1, Dualism and inequality in China: Chinese development strategy has made increasing use of the price mechanism, starting with the liberalization of agriculture and rural markets in the early 1980s and accelerating in the 1990s with privatization of many state-owned enterprises and the support of private-sector investment (both domestic and foreign) in the manufactured export sector in the coastal provinces. What major internal transformations are taking place within China? What do we know about sectoral patterns in GDP growth, and geographical patterns of income distribution and labor migration? Do you agree with Dooley, *et al* that what we are seeing is an export-led growth strategy designed to absorb a Lewis-style labor surplus over a horizon of two or three decades?

Von Braun, Joachim, Ashok Gulati, and Shenggen Fan. 2006. ‘Agricultural and economic development strategies and the transformation of China and India’, on the IFPRI blog world hunger (<http://www.ifpri.org>): <http://www.ifpri.org/pubs/books/ar2004/ar04essay01.pdf>

Yang, Dennis Tao and Cai Fang. 2000. ‘The political economy of China’s rural-urban divide’, In N. Hope, D. T. Yang, and M. Y. Li, eds, *How Far Across the River? Chinese Policy Reform at the Millennium*. Stanford: Stanford University Press: 389-416.

Dooley, M. D. Folkerts-Landau and P. Garber. 2004. ‘Direct investment, rising real wages, and the absorption of excess labor in the periphery’, NBER Working Paper 10626, July. <http://econ.ucsc.edu/~mpd/NBER%20Direct%20Investment..pdf>

Paper #2, The urban 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?

de Soto, H., in collaboration with the Instituto Libertad y Democracia 1989. *The Other Path: the Invisible Revolution in the Third World*. translated by June Abbott.

de Soto, H. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*.

Turnham, D. 1990. *The Informal Sector Revisited*. Paris: OECD Development Centre.

FALL BREAK, WEEK OF Monday 10/13

WEEK 7, Tuesday 10/21 – Trade policy and industrialization

[Term paper outline w/ starting bibliography due at this seminar]

Readings

PRL: Chapter 18, Chapter 19:711-728.

Rodrik: Chapter 4.

HG: Recall Sections 8.1 – 8.3.

M&R: §II.4(big push), Note III.A.2(ISI and infant industry argument), §III.A.1(Ranis typology)

Westphal, L. E. 1990. ‘Industrial policy in an export-propelled economy: lessons from South Korea’s experience’, *Journal of Economic Perspectives*, pp. 41-59.

Exercises:

See “Week 7 pset” on blackboard.

Paper #1, ISI in practice: During the mid-1970s, Jagdish Bhagwati and Anne Krueger coordinated an NBER project that produced a celebrated set of country studies of trade and industrialization policy. Choose any two countries that adopted inward-looking trade strategies characteristic of import-substituting industrialization (i.e., exclude Korea which was not inward-looking after the early 1960s). When and why was ISI adopted, what policies were used to implement the strategy, and what findings did the Bhagwati/Krueger study report with respect to the impact of ISI on resource allocation, efficiency, and growth?

Bhagwati, Jagdish N. (1978), *Anatomy and consequences of exchange control regimes* (Cambridge, Mass: Ballinger Publishing Company for the National Bureau of Economic Research). Vol. 11 of Foreign Exchange Regimes and Economic Development

Krueger, Anne O. (1978) *Liberalization attempts and consequences* (Cambridge, Mass: Ballinger Publishing Company for the National Bureau of Economic Research). Vol. 10 of Foreign Exchange Regimes and Economic Development

Volumes 1-9 are country case studies published separately and listed in the Bhagwati and Krueger books.

Paper #2, Picking winners: Some scholars believe that “selective intervention” by government played a crucial role in the successful industrialization of Korea after 1960. What industries did Korean policy favor over time, and what policy instruments were used? To what degree, if any, did selective intervention play a similar role in Taiwan? How did intervention in these countries differ, in tactics and results, from that pursued in India between 1960 and 1991? Finally: Noland and Pack are skeptical of the importance of industrial policy in Korea and Taiwan, and certainly of its potential in other countries; why?

Pack, H. and Westphal, L.E. (1986), Industrial strategy and technological change: Theory vs. reality, *Journal of Development Economics*, pp. 87-128.

Wade, R. (1988), State intervention in 'outward-looking' development: neoclassical theory and Taiwanese practice, in G. White, *Developmental states in East Asia*. [alternatively, see the chapters on Taiwan in Ward, R. (1990), *Governing the market: economic theory and the role of government in East Asian industrialization*.]

Krueger, A. O. (1998), “Contrasts in transition to market-oriented economies: India and Korea,” In: Y. Hayami and M. Aoki, eds, *The Institutional Foundations of East Asian Economic Development* (London: Macmillan): pp. 179-207 (including Basu’s comment).

Noland, M. and H. Pack (2003), *Industrial policy in an era of globalization: Lessons from Asia* (Washington, DC: Institute for International Economics).

Week 8, Tuesday 10/28 – Trade, technology, and globalization

Readings:

PRL: Chapter 11: 415-end, Chapter 17, Chapter 19:729-end.

Rodrik: Chapters 7-end.

HG: <review> Chapter 6, Chapter 8: section 8.4-end.

M&R: Note III.A.1(natural resource abundance), §III.A.2(Krueger’s trade model), §III.A.4(Rodrik on getting interventions right in KOR and TWN), Note III.B.1(learning in international production networks), §III.B.1(Pack on technology gaps), §III.B.2(benefits of FDI).

Exercises:

See “Week 8 pset” on blackboard.

Paper #1, Acquiring technological capability: Westphal (2002) argues that (industrial) technology policy played a critical role in enabling Asian countries – with varied approaches – to seize the development opportunities afforded by 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 in industry, 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?

Westphal, L.E. (2002), Technology strategies for economic development in a fast changing global economy, *Economics of Innovation and New Technology* – obtain from SO'C.
Lall, S. (1987), *Learning to Industrialize: the acquisition of technological capability by India*. (Especially Chapters 1, 2, & 8 plus one case study chapter.)
Argentina chapter in Katz, J., ed. (1987), *Technology generation in Latin American manufacturing industries*.

Paper #2, Trade and agglomeration: Krugman shows how agglomeration externalities can create long-lasting “first-mover” advantages in producing and exporting manufactured goods. Is there any evidence that such effects are empirically important? Should policymakers seeking to promote manufacturing exports in low-income countries pay attention to agglomeration effects, and if so, how?

Krugman, P. (1999), “The role of geography in development,” in B. Pleskovic and J. E. Stiglitz, eds, *Annual World Bank Conference on Development Economics 1998* (Washington, DC: The World Bank).
Head, K., and T. Mayer (2004), “The empirics of agglomeration and trade,” in J. V. Henderson and J.-F. Thisse, eds. *Handbook of regional and urban economics*. Volume 4. Cities and geography. Handbooks in Economics, vol. 7. Amsterdam; San Diego and Oxford: Elsevier, 2004; 2609-69.
Collier, P. (2007), *The bottom billion* (Oxford: Oxford University Press), chapters 1, 6, 10.

Week 9, Tuesday 11/4 – Rural markets: risk, credit, and insurance

Readings: (Beware – LOTS of reading this week. The Ray readings are very important.)

PRL: <review> Chapter 16.

HG: Chapter 9, Chapter 10.

Ray 1998: Chapter 11 (skim); Chapter 12 (Land; especially Section 12.3 which is on blackboard); Chapter 14 (Credit); Chapter 15 (Insurance) [Copies of the Ray text are on General Reserve; see also Ec 181 binders.]

M&R: §V.5(Morduch on microfinance), §VII.B(Microeconomics of the rural sector: 1-Stiglitz, 2-Binswanger/Rosenzweig, 3-Bardhan, 4-Braverman/Guasch, and 5-Singh, Squire and Strauss).

Exercises:

See “Week 9 pset” on blackboard.

Paper #1, Mutual insurance and self insurance:

Fafchamps (1992) provides an overview and Udry (1990) a detailed example of the mechanisms households use to achieve *ex post* risk-sharing at the village level in rural Africa. What are (some of) these arrangements and how do they work? Do these mechanisms appear to achieve full pooling of income risks at the village level? Why *must* they fail to protect a rural household from *all* risks, even if they achieve full pooling at the village level? What are some of the self-insurance mechanisms rural households use to deal with uninsurable risks? What do we know about the consequences of self-insurance for the level and growth of rural incomes?

Dasgupta, P. (1993) *An inquiry into well being and destitution* (Oxford: Clarendon Press). [Chapters 8 and 9 only, for survey material on self-insurance mechanisms.]

Fafchamps, M. (1992), “Solidarity networks in rural Africa: rational peasants with a moral economy,” *Economic Development and Cultural Change* 41.

Townsend, R. M. (1995), “Consumption insurance: an evaluation of risk-bearing systems in low-income economies,” *Journal of Economic Perspectives* 9(3): 83-102.

Udry, C. (1990), Credit markets in northern Nigeria: credit as insurance in a rural economy,” *World Bank Economic Review* 4.

Paper #2, Microfinance and group lending

Muhammad Yunus shared the 2006 Nobel Peace Prize with the Grameen Bank, a micro-credit institution he founded in Bangladesh in 1976. What was innovative about the lending program of the Grameen Bank, and what features (if any) differentiate the Grameen Bank’s approach from that of other leading forms of

microfinance? What do we know about the impact of the Grameen Bank, or of other microfinance initiatives, on the welfare of participating households in developing countries? Would it be fair to say that while the Grameen Bank (or microfinance more generally) fails a private cost-benefit test, it passes a social cost-benefit test?

Armendariz, B. and J. Morduch (2004), "Microfinance: Where do we stand?" in C. Goodhart, ed (2004), *Financial Development and Economic Growth: Explaining the Links* (Basingstoke, Hampshire, UK: Palgrave Macmillan). [check Morduch's web page]

Khandker, S., B. Khalily and Z. Khan (1995), "Grameen Bank: Performance and Sustainability," World Bank Discussion Paper No. 306. Washington, DC: The World Bank.

Morduch, J. (1999), "The role of subsidies in microfinance: evidence from the Grameen Bank," *Journal of Development Economics* 60, October: 229-248. [check Morduch's web page]

Week 10, Tuesday 11/12 – Public spending, development projects, and aid

Readings:

PRL: Chapter 10; Chapter 11: 399-415, Chapter 12, Chapter 14.

HG: <none>

M&R: §V.4(Easterly on aid and growth).

Also required (on blackboard): WWS 2005 handout on poverty targeting.

Also required (on blackboard): Grimm, M. and I. Gunther (2006), Growth and poverty in Burkina Faso: A reassessment of the paradox," *Journal of African Economies* 16(1): 70-101.

Exercises:

See "Week 10 pset" on blackboard.

Paper #1, Poverty targeting: Why is it difficult to direct government spending to the poor in a cost-effective manner? What works, and what doesn't?

Ravallion, M. (2006), "Transfers and safety nets in poor countries: revisiting the tradeoffs and policy options," in A. V. Banerjee, R. Benabou, and D. Mookherjee, eds (2006), *Understanding poverty* (Oxford: Oxford University Press): 203-230.

van de Walle, D. (1995), "Incidence and Targeting: An Overview of Implications," in D. van de Walle and Nead, eds (1995), *Public spending and the poor*.

For case-study evidence, see Chapters 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*) in *Public spending and the poor*:

Paper #2, Cell phones and market integration: IT innovations drive down the cost of information and widen the scope for competition in services that were once natural monopolies. How is cell phone coverage evolving in low-income areas of the world? How are cell phones altering how markets work?

Aker, Jenny (2008), "Does digital divide or provide? The impact of cell phones on grain markets in Niger" (<http://are.berkeley.edu/~aker/cell.pdf>)

Wheeler, D., T. Thomas, S. Dasgupta, and P. Buys (2008), "Determinants of a digital divide in Sub-Saharan Africa: a spatial econometric analysis of cell phone coverage," Policy Research Working Paper Series No. 4516, The World Bank.

Week 11, Tuesday 11/19 – Fiscal and monetary management

Readings:

PRL: Chapter 13, Chapter 21.

HG: <review> Section 8.5.

M&R: §V.2(Levine on financial development and growth)

Also required (on blackboard): SO'C handout on Tools for fiscal and monetary policy analysis.

Also required (on blackboard): Fischer, S. and W. Easterly, (1990), "The economics of the government budget constraint," *World Bank Research Observer* 5(2), pp. 127-142.

Exercises:

See "Week 11 pset" on blackboard.

Paper #1, Populism: 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. Given the wave of Latin American economic reforms since the 1980s: is populism dead?

Dornbusch, R. and S. Edwards, eds. (1991), *The Macroeconomics of Populism in Latin America* (Chicago: University of Chicago Press).

Symposium: Latin America's Growth Record. *Journal of Economic Perspectives* 18(2), Spring 2004: 67-106 [read both the Ocampo article and the Fraga article].

Paper #2, Commodity windfalls: The permanent income hypothesis suggests that if consumption volatility is socially costly, the temporary component of a commodity boom should be invested rather than consumed. Oil-producing countries are now going through a boom similar to what Indonesia and Nigeria experienced during the 1970s. Yet while the current boom dominates Nigeria's fortunes at least as much as it did in the 1970s, oil no longer seems a major part of the Indonesian story. How did Indonesia manage to turn natural resources into a platform for long-run development? Why didn't this happen in Nigeria? Is Nigeria's current management of its oil revenues any different than in the 1970s?

Bevan, D., P. Collier, and J. W. Gunning (1999), *Nigeria and Indonesia* (New York: Published for the World Bank by Oxford University Press).

Cuddington, J. (1989), "Commodity export booms in developing countries," *World Bank Research Observer*, pp. 143-65.

Gelb, A. and associates (1988), *Oil windfalls: blessing or curse?* [Good overview chapter and many useful country chapters.]

Sachs, J. and A. Warner (2001), "The curse of natural resources," *European Economic Review* 45(4-6): 827-38.

For Nigeria's current experience, go to the publications page on www.imf.org and download the most recent Article IV consultations with Nigeria (do a search on 'Nigeria').

Week 12, Tuesday 11/24 – Capital flows and financial crises

Readings:

PRL: Chapter 15.

HG: <review> Section 8.5.

Sachs and Larrain 1993, Chapters 6, 21, & 22 (in Ec 181 binders on General Reserve).

M&R: §V.3 (Eichengreen on taming capital flows).

Also required (on blackboard): Eichengreen, B. (2001), "Crisis Prevention and Management: Any New Lessons from Argentina and Turkey?" Background Paper for World Development Report 2002, October (on blackboard)

Exercises:

See "Week 12 pset" on blackboard. Note: many of these problems are directly from Sachs and Larrain.

Paper #1, Sudden stops: Drawing on Calvo/Reinhart, what is a "sudden stop"? How large a swing in net capital flows did emerging market economies experience in the 1990s? Why does a measure combining reserve losses with real exchange rate depreciation make sense as a measure of the severity of a currency crisis? What are the real costs of a sudden stop? Contrast dollarization and capital controls as alternative

means for reducing vulnerability to sudden stops. Now consider Henry's paper on the impact of capital account liberalization; how does his evidence square with the dangers identified by Calvo and Reinhart?

Calvo, G. and C. Reinhart 1999, "When Capital Inflows Come to a Sudden Stop: Consequences and Policy Options", University of Maryland.

Henry, P. B. (2008), "Capital Account Liberalization: Theory, Evidence, and Speculation", *Journal of Economic Literature* 95, December: 887-935.

Paper #2, Inflation targeting: During the 1990s, inflation itself emerged as a serious alternative to monetary aggregates or the exchange rate as a nominal anchor for monetary policy. What are the key components of a formal inflation targeting system, and which countries have adopted IT? What are the theoretical advantages of IT over alternative systems? Is there any evidence that adopting formal IT improves macroeconomic performance? What characteristics of a country's policy environment would suggest caution in adopting formal IT?

Batini, N. and D. Laxton (2007), "Under what conditions can inflation targeting be adopted? The experience of emerging markets," in F. Mishkin and K. Schmidt-Hebbel, eds, *Monetary policy under inflation targeting* (Santiago: Central Bank of Chile) [should be available on Bank of Chile web page]

Mishkin, F. S. and M. A. Savastano (2001), "Monetary policy strategies for Latin America," *Journal of Development Economics* 66(2), December: 415-44

O'Connell, S. (2008) "Inflation targeting as a monetary framework: issues and concerns," prepared for the Seminar on Monetary Policy and Inflation Targeting, Central Bank of Nigeria, Abuja, January 19 [on my web page]

Truman, T. (2003), *Inflation targeting in the world economy* (Washington, DC: Institute for International Economics).

Week 13, Tuesday 12/2 – Roundtable presentation of term papers

**NOTE: 1-page executive summaries of your term papers are due at 5pm on Monday 12/1.

**NOTE: Term papers are due in hard copy at the seminar, and also electronically by email after the seminar.

Exercises:

None for this week.