

Economics 181
SEMINAR IN ECONOMIC DEVELOPMENT
Swarthmore College

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Office hours: TBA

Spring, 2008
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).

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, Dani *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. In the Reference section of the library (or online via Tripod) 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.

SEMINAR REQUIREMENTS AND GRADING

Weekly readings: An honors seminar is a collaborative exercise in which students are directly responsible to other students. 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.

*****A note 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 (M Jan 22): *Overview*

No papers this week.

Week 2 (M Jan 28): *Economic growth*

Paper #1, Convergence and divergence / Paper #2: none.

Week 3 (M Feb 4): *The role of the state*

Paper #1, Institutions and growth / Paper #2, Governance and productivity

Week 4 (M Feb 11): *Human resources*

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

Week 5 (M Feb 18): *Modernizing agriculture*

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

Week 6 (M Feb 25): *Inequality and dualism*

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

Week 7 (M Mar 3): *Inward-looking industrialization*

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

Paper #1, ISI in practice / Paper #2, Selective protection in Korea

SPRING BREAK: Week of Monday March 10

Week 8 (M Mar 17): *Technology, trade and globalization*

Paper #1, The resource curse / Paper #2, Acquiring technological capability

Week 9 (M Mar 24): *Finance, insurance, and risk*

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

Week 10 (M Mar 31): *Public spending, development projects, and aid*

Paper #1, Poverty targeting / Paper #2, The HIPC/PRSP process

Week 11 (M Apr 7): *Fiscal and monetary management*

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

Week 12 (M Apr 14): *Capital flows and financial crises*

Paper #1, Sudden stops / Paper #2, The IMF in Asia

Week 13 (M Apr 21): *Sustainable development*

[Term papers are due at this seminar]

Paper #1, Green accounts OR Curbing global carbon emissions / Paper #2, none

Week 14: (M Apr 28): *Roundtable discussion*

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

No seminar papers this week.

WEEKLY ASSIGNMENTS

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

WEEK 1, Mon Jan 21 – Overview

Readings

PRL: Chapters 1 & 2.

M&R: Section I.A.

Exercises

See “Week 1 pset” on blackboard.

WEEK 2, Mon Jan 28 – 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, none this week

WEEK 3, Mon Feb 4 – 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, 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 4, Mon Feb 11 – 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, Mon Feb 18 – 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, Mon Feb 25 – 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.ifpriblog.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.

WEEK 7, Mon Mar 3 – Inward-looking 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, Selective intervention in Korea: 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? To what degree, if any, did selective intervention play a similar role in Taiwan? How did intervention in Korea differ, in tactics and results, from that pursued in India between 1960 and 1991?

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*. [Or, better still, peruse the chapters dealing specifically with 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).

SPRING BREAK, WEEK OF Mon Mar 10

Week 8, Mon Mar 17 – 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, The resource curse: What are the channels through which natural resource abundance ends up being a ‘curse’ in terms of economic growth? Indonesia and Nigeria were both major beneficiaries from the oil price increases in the 1970s, but these two countries have since developed in radically different directions – so much so that the current oil boom dominates Nigeria’s fortunes at least as much as it did in the 1970s, while 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?

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

Ross, Michael 2003, “The natural resource curse: How wealth can make you poor,” in I. Bannon and P. Collier, eds, *Natural Resources and Violent Conflict*. Washington D.C.: The World Bank.

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

Paper #2, 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*.

Week 9, Monday Mar 24 – 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, Monday Mar 31 – 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?

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, The HIPC/PRSP process: The poorest countries borrow very little commercially, so their external debt is virtually all to official creditors. How did official debts get so big by the early 1990s? What is the HIPC Initiative, how do countries qualify, and how much debt relief has taken place under the HIPC and Extended HIPC Initiatives? Do we know what impact official debt relief has had on total *net* resource transfers from donor countries and multilateral creditors? What further will the MDRI (100 percent cancellation, agreed at the 2005 G8 meeting in Gleneagles Scotland) accomplish, and for what countries? What is a Poverty Reduction Strategy (PRS), and why have donors made multilateral debt relief conditional on the adoption of a PRS? On the IMF website, choose a country that has a Poverty Reduction Strategy paper around 2000 and another around 2005/06 (<http://www.imf.org/external/np/prsp/prsp.asp?view=prs&sort=cty>); what do you learn about priorities and progress on poverty reduction?

See www.worldbank.org under *Topics>Economic Policy and Debt* and www.imf.org (search 'debt relief' or 'poverty reduction strategy').

Week 11, Monday Apr 7 – 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, Commodity windfalls: 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 this rule of thumb? Develop an example of mismanagement and draw lessons.

- Bevan, D., P. Collier and J. W. Gunning (1992), "Anatomy of a Temporary Trade Shock: The Kenyan Coffee Boom of 1976-79," *Journal of African Economies* 1(2), August: 271-305.
- 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.]

Paper #2, 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].

Week 12, Monday Apr 14 – 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, The IMF in Asia: In 1997, after decades of stellar economic performance (the so-called "East Asian Miracle"), a set of economies in East Asia suffered a dramatic macroeconomic crisis, requiring a massive reversal in the trade balance and generating a sharp economic contraction. Stanley Fischer was the IMF's First Deputy Managing Director and lead economist during the crisis; at that time Stiglitz was Director of Research at the World Bank. Read Stiglitz's account first, and then Fischer's; both accounts have something of a retrospective flavor since the crisis was by that time well over. What are the key points of divergence and convergence regarding the IMF's role? What reforms do these authors advocate in the international financial system to reduce the risk of systemic crises of this kind?

Fischer, S. (2001), "Asia and the IMF," Remarks at the Institute of Policy Studies, Singapore (on blackboard for week 12).
Stiglitz, J. (2002) *Globalization and its Discontents* (New York: W.W. Norton), Chapters 1-4 and 8-9.
Woo, W. T., J. D. Sachs and K. Schwab, eds (2000), *The Asian Financial Crisis: Lessons for a Resilient Asia* (Cambridge, MA: MIT Press). [Optional additional background, critical of the IMF.]

Week 13, Monday Apr 21 – Sustainable development

NOTE: Term papers are due on Sunday April 27, by 5pm. Please email to all participants and leave a hard copy in the box outside my office.

Readings:

PRL: Chapter 20.

HG: Chapter 7:223-end.

M&R: Chapter X (1-Development and environment; 2-Chichilnisky on N-S trade; 3-Deforestation and rule of law; 4-Pollution abatement; 5-Genuine savings rates)

Exercises:

None for this week.

Paper #1, Curbing Global Carbon Emissions: Details to be worked out between SO'C and the author.

Paper #2: Implications of Climate Change: What do economists tell us about the likely impact of climate change on the future economic development of low-income regions of the world? What are the channels through which economic impacts are likely to occur, and over what horizon? How do economists assess the likely magnitude of economic impacts?

The Stern Report on the Economics of Climate Change

(http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm)

Reviews of the Stern report by W. Nordhaus and M. Weitzman, *Journal of Econ Literature* September 2007.

Web page of William Nordhaus (<http://nordhaus.econ.yale.edu/>)

Week 14, Monday Apr 28 – Roundtable presentation of term papers