Economics 81
ECONOMIC DEVELOPMENT
Swarthmore College

Prof. Steve O'Connell
Office hours: T 9-10:30, Th 1-2:00pm

Fall 2007, MWF 9:30-10:20, K228
office Kohlberg 205, soconne1, x8107

This course is a survey of development economics. It can be counted towards a minor in Asian Studies, Black Studies, Peace and Conflict Studies, or Public Policy. In the first three cases, you must inform me at the outset of the semester and do your term paper on a topic appropriate to the relevant minor.

COURSE OBJECTIVES

Aspects of the modernization process confront us through personal experience, the media, and across the academic disciplines. By the end of this semester you should have a reliable geography of post-WWII development experience in the major developing regions, and a sense of the diversity of individual-country experience. You should understand how development economists use the tools of Ec 1 to develop robust insights about the determinants of long-run development. You should be able to use these tools yourself to interpret the main challenges and debates in development policy at the global, macro, and micro levels.

REQUIRED TEXTS

Collier, P. (2007), *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*. Oxford: Oxford University Press.

Szirmai, A. (2005), *The Dynamics of Socio-Economic Development: An Introduction*. Cambridge: Cambridge University Press.

OTHER REFERENCES

A useful mainstream development textbook is Dwight Perkins, et al, *Economics of Development*, 6th Edition (New York: W.W. Norton); a sustained and deep approach is provided by Y. Hayami and Y. Godo (2005), *Development Economics: From the Poverty to the Wealth of Nations*, 3rd ed (Oxford: Oxford University Press). Both are on General Reserve at McCabe. The Ec 181 Honors reserve section has additional references including advanced surveys of development topics in the 4-volume *Handbook of Development Economics*. The Econlit CD-Rom, accessible via Tripod, is a complete index of the economics journal literature. The leading development journals include *Journal of Development Economics*, *Economic Development and Cultural Change*, *World Bank Economic Review*, *World Bank Research Observer*, and *World Development* (the last 2 are non-technical). For cross-country development data, use the World Bank's *WDI* online and the IMF's *International Financial Statistics* online, both accessible via Tripod, and consult worldbank.org, imf.org, and other obvious websites.

COURSE POLICIES

Attendance: I require attendance of all students. If you have predictable attendance conflicts, please work these out with me at the beginning of the semester.
Grading: Midterm exam, 25%. Final exam, 40%. Paper, 25%, Attendance and participation, 10%.

Make-up exams: I will only give make-up exams for an emergency or medical excuse certified by the Dean's office or Worth Health Center.
Plagiarism: Plagiarism is defined as passing off the work of others as your own. It is easy to avoid, not by ignoring the work of others but by citing it whenever you use it. Students will be required to submit their term papers electronically, as MS Word documents. Any student caught plagiarizing will fail the course and will also face the College's judicial procedure which may lead to suspension or expulsion. For instructions on avoiding plagiarism see *Referencing Source Material and Avoiding Plagiarism in Economics* under the 'Classes' link on my web page.

TERM PAPER
Your paper should be 12-15 pages of double-spaced text (not including references, tables, figures). Identify a topic that interests you, and follow up references in the Szirmai or Collier book to determine how development economists have approached this topic. Narrow your focus to a research question that can be informed by marshaling (someone else's!) evidence from one or more developing economies (Can infant industry protection be successful? What impact has PROGRESA had on poverty in Mexico? What explains rural-to-urban migration in poor countries? Is Venezuela falling prey to the 'resource curse'? What determines the pattern of foreign direct investment in manufacturing? etc.). Present the relevant analytical framework in your paper, and develop an answer in light of your evidence.

Term paper deadlines (required steps are identified by *)
*Proposed research question (1 paragraph) by Monday October 1, in class
[proposal must be approved by me to move to the next stage]
*Annotated outline (2 pages, with at least 4 references) by Friday October 12, in class
[this should show the structure of the paper, indicating the analytical framework you intend to use and the evidence you'll bring to bear.]
Rough draft of paper by Monday November 5
[this stage is optional: it gives you time to have your paper WAed at the Writing Center]
*Final draft by Friday November 30

Note: Your final grade will be reduced by 1/3 of a grade for each 3 days the final draft is late.

WEEKLY READINGS
All starred (*) readings are required. They are available either in required texts, online via blackboard, or in Ec 81 binders on General Reserve in McCabe. All other readings (in small font) are optional and may or may not be readily available.

Introduction (week 1, Monday 9/3)
➔➔ **Note: Class cancelled Friday Sept 7.**
*Szirmai, ch 1, pp. 1-34; *Hall R.E. and C. I. Jones (1999), "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics* 114(1).
Key concepts: economic development, factor accumulation, productivity.
Firebaugh, Glenn (2003), *The New Geography of Global Income Inequality* (Cambridge, MA: Harvard University Press).

Historical background (week 2, Monday 9/10)

➔➔ Note: Friday Sept 14 is the end of drop/add period.

*Szirmai, ch 2, pp. 35-67; *Szirmai, ch 13, Sections 14.1-14.3 only, pp. 515-46; *Szirmai, ch 14, Sections 14.1-14.3 only, pp. 580-91; *Engerman, S. L. and K. L. Sokoloff (1997), "Factor Endowments, Institutions, and Differential Paths of Growth Among New World Economies," in S. Haber, ed, *How Latin America Fell Behind* (Stanford, CA: Stanford University Press).

Key concepts: globalization, income distribution, multilateralism.

North, D. (1991) "Institutions," *Journal of Economic Perspectives* 5: 97-112.

Perkins, D. H. and M. Roemer (1994), "Differing Endowments and Historical Legacies," chapter 2 in D. L. Lindauer and M. Roemer, eds *Asia and Africa: Legacies and Opportunities in Development* (San Francisco: ICS Press): 25-58.

Sala-i-Martin, Xavier (2006), "The World Distribution of Income: Falling Poverty and… Convergence, Period," *Quarterly Journal of Economics*, forthcoming.

Economic growth (week 3, Monday 9/17)

*Szirmai, ch 3, pp. 68-116; *Acemoglu. D., S. Johnson and J. Robinson (2001), "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91, December: 1369-1401.

Key concepts: convergence, capital fundamentalism, international factor mobility.

Collier, Paul, Anke Hoeffler and Catherine Pattillo (2004), "Capital Flight and the Brain Drain as Portfolio Decisions, *Journal of African Economies*, Supplement 2 13(0): ii15-54.

Easterly, W. (2002), *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* (Cambridge, MA: MIT Press).

Ndulu, B. J. and S. A. O'Connell (2007), "Policy Plus: African Economic Growth, 1960-2000" chapter 1 in Ndulu and O'Connell *et al.*, eds, *The Political Economy of Economic Growth in Africa, 1960-2000*. Cambridge: Cambridge University Press, forthcoming (blackboard).

Lucas, Robert E. (1988), "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22(1), July: 3-42.

Acquiring technological capability (week 4, Monday 9/24)

*Szirmai, ch 4, pp. 117-138; *Hausmann, R. and D. Rodrik (2003), "Economic Development as Self-Discovery", *Journal of Development Economics* 72(2), December: 603-33.

Key concepts: tacitness, circumstantial sensitivity, spillovers, global supply chains.

Hobday, M. (2000), "East versus Southeast Asia Innovation Systems: Comparing OEM- and TNC-led Growth in Electronics." in L. Kim and R. R. Nelson, eds. *Technology, Learning, and Innovation: Experiences of Newly Industrializing Economies.* Cambridge; New York and Melbourne: Cambridge University Press: 129-69.

Wade, R. (1994), "Selective industrial policies in East Asia: is *The East Asian Miracle* right?" in A. Fishlow et al, eds, *Miracle or Design? Lessons from the East Asian Experience*. Washington, DC: Overseas Development Council.

Westphal, L. E. (2002), "Technology Strategies for Economic Development in a Fast Changing Global Economy," *Economics of Innovation and New Technology* 11(4-5), August-October: 275-320.

The bottom billion – conflict and natural resources (Week 5, Monday Oct 1)

*Collier, chs 1-4; *Szirmai, ch 11, pp. 426-85.

Key concepts: poverty traps, conflict curse, natural resource curse.

Azam, Jean-Paul (2007), "The Political Geography of Redistribution", chapter 6 in Ndulu and O'Connell *et al.*, eds, *The Political Economy of Economic Growth in Africa, 1960-2000, vol 1* (Cambridge: Cambridge University Press, forthcoming) (on blackboard).

Collier, Paul and Anke Hoeffler (2004), "Greed and Grievance in Civil War," *Oxford Economic Papers* 56(4), October: 563-595.

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

The bottom billion – trade (Week 6, Monday Oct 8)

➔➔ Midterm Exam in class Weds Oct 10, covering wks 1-5.

*Collier, chs 5-end; *Golub, S., S. A. O'Connell, and W. Du (2007), "Export Competitiveness and Development in Least Developed Countries," Prepared for UNCTAD XII, Swarthmore College, Swarthmore PA.

Key concepts: labor costs, supply-side constraints, agglomeration, trade preferences.

Gallup, John Luke and Jeffrey D. Sachs with Andrew Mellinger (1999), "Geography and Economic Development," in Boris Plescovic and Joseph E. Stiglitz, eds, *Annual World Bank Conference on Development Economics 1998*. Washington, D.C.: The World Bank.

Krugman, Paul R & Venables, Anthony J, 1995. "Globalization and the Inequality of Nations," *Quarterly Journal of Economics* 110(4), November: 857-80.

Limão, Nuno and Anthony J. Venables (2002), "Transport Costs, Infrastructure and Growth," *World Bank Economic Review* 15(3): 451-479.

***** Fall Break, week of Monday Oct 15 *****

Population (Week 7, Monday Oct 22)

➔➔ SOC at UNCTAD meeting and will miss 1 or 2 lectures; details TBA.

*Szirmai, ch 5, pp. 141-176; *Mammen, K. and C. Paxson (2000), "Women's Work and Economic Development," *Journal of Economic Perspectives* 14(4), Fall; *Schultz, T. Paul (2001), "The Fertility Transition: Economic Explanations", entry in International Encyclopedia of the Social Sciences. (http://www.econ.yale.edu/growth_pdf/cdp833.pdf)

Key concepts: fertility behavior, demographic transition, female labor force participation.

Galor, O. and D. N. Weil (1996), "The gender gap, fertility, and growth," *American Economic Review* 86(3), June: 374-87.

Lucas, R. E. (2003), "The Industrial Revolution: Past and Future," in Federal Reserve Bank of Minneapolis *Annual Report: The Region* (http://minneapolisfed.org/pubs/region/04-05/essay.cfm)

Joshi, Shareen and T. Paul Schultz (2007), "Family Planning as an Investment in Development: Evaluation of a Program's Consequences in Matlab, Bangladesh," Economic Growth Center Discussion Paper No. 951, Yale University (http://www.econ.yale.edu/~pschultz/cdp951.pdf)

Poverty targeting and human capital (week 8, Monday Oct 29)

*Szirmai, ch 6, pp. 177-212; ch 7, pp. 213-54; *Grosh, M. (1992), "The Jamaican Food Stamps Programme: A Case Study in Targeting," *Food Policy*, February.

Key concepts: targeting, human capital, conditional transfers, randomized evaluation.

Das, J., Q. T. Do, and B. Ozler (2004), "Conditional Cash Transfers and the Equity/Efficiency Debate," World Bank Policy Research Paper No. 3280.

Duflo, E. (1999), "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment," *American Economic Review*. http://econ-www.mit.edu/faculty/eduflo/files/papers/inpresaer.pdf.

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

Kremer, M. (1995), "Research on Schooling: What We Know and What We Don't: A Comment," *World Bank Research Observer* 10(2).

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.

Structural transformation and primary exports (Week 9, Monday Nov 5)

*Szirmai, ch 8, pp. 255-302; *Tomich, T., M. Roemer, and J. Vincent (1994), "Development from a primary export base," in Lindauer, D. L. and M. Roemer, eds. *Asia and Africa: Legacies and Opportunities in Development*.

Key concepts: Dutch disease, real exchange rate, fiscal linkages.

Blattman, Christopher, Jason Hwang, and Jeffrey G. Williamson (2007), Winners and Losers in the Commodity Lottery: The Impact of Terms of Trade Growth and Volatility in the Periphery 1870-1939," *Journal of Development Economics*.

Pinto, B. (1987), "Nigeria during and after the Oil Boom: A Policy Comparison with Indonesia," *World Bank Economic Review* 1(3), May: 419-45.

Wood, A. and K. Berge (1997), "Exporting manufactures: human resources, natural resources and trade policy," *Journal of Development Studies* 34: 35-59.

Industrial development (week 10, Monday Nov 12)

*Szirmai, ch 9, pp. 303-353; *Lewis, W. Arthur (1954), "Economic Development with Unlimited Supplies of Labor," *The Manchester School of Economic and Social Studies* 22, May: 139-92.

Key concepts: agricultural surplus, balanced growth, big push, learning by doing.

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

Fields, G. S. (2004), "Dualism in the labor market: A perspective on the Lewis model after half a century," *Manchester School* 72(6), December: 724-35. http://www.ilr.cornell.edu/directory/downloads/fields/Fields,ManchesterSchool.pdf

Lal, D. (1999), *Unfinished Business: India in the World Economy* (Oxford: Oxford University Press).

O'Connell, S. A. (2006) "The agricultural surplus in dual-economy models" (blackboard)

Rodrik, Dani (2006), "Industrial Developmnent: Stylized Facts and Policies," forthcoming in Industrial Development for the 21st Century, UN-Desa, Draft August.

Roemer, M. (1994), "Industrialization strategies: outward bound," in Lindauer, D. L. and M. Roemer, eds. *Asia and Africa: legacies and opportunities in development*.

World Bank (1994), *The East Asian miracle: economic growth and public policy* (Washington, DC: The World Bank).

Agricultural productivity and rural development (week 11, Monday Nov 19)

➔➔ Note: No class Friday Nov 23 (Thanksgiving holiday)

*Szirmai, ch 10, pp. 354-425.

Key concepts: Green revolution, induced innovation, rural institutions.

Bauer, Peter (2000), *From subsistence to exchange and other essays* (Princeton: Princeton University Press).

Colson, Elizabeth (1974), *Tradition and contract: the problem of order* (Chicago: Aldine Publishing Company).

Dercon, S. (2005), "Risk, Insurance, and Poverty: A Review," in S. Dercon, ed, *Insurance Against Poverty*. (A study prepared by the World Institute for Development Economics Research of the United Nations University (UNU-WIDER). Oxford and New York: Oxford University Press): 9-37.

Finance and development (week 12, Monday Nov 26)

*Szirmai, ch 13, Sections 13.4-end: 546-79.

Key concepts: Asian financial crisis, moral hazard, adverse selection, micro-credit.

Morduch, J. (2000), "The Microfinance Schism," *World Development* 28(4), April: 617-29.

Morduch, J. (1999), "Between the State and the Market: Can Informal Insurance Patch the Safety Net?" *World Bank Research Observer* 14(2), August: 187-207.

Stiglitz, J. (2003), *Globalization and its Discontents*.

Foreign aid (week 13, Monday Dec 3)

*Szirmai, ch 14, Sections 14.4-end: pp. 591-632.

Key concepts: Financing gaps, conditionality/selectivity, big push/incrementalism.

Devarajan, S., D. Dollar, and T. Holmgren (2001), *Aid and Reform in Africa: Lessons from Ten Case Studies* (Washington, DC: The World Bank).

Easterly, W. (2007), "Was Development Assistance a Mistake?" *American Economic Review* Papers and Proceedings, May (http://www.nyu.edu/fas/institute/dri/Easterly/File/Was_Development_Assistance_a_Mistake.pdf)

Sachs, J. D. *et al* (2004), "Ending Africa's poverty trap," *Brookings Papers on Economic Activity* 1: 117-240.

Wrapping up (final class meeting, Monday Dec 10)

➔➔ FINAL EXAM at scheduled time during finals week

Subject to revision. This version September 18, 2007.