

Economics 81
ECONOMIC DEVELOPMENT
Swarthmore College

Prof. Steve O'Connell
Office hours: Mon 1030-1130, Thurs 11-noon

Fall 2008, TTh 8:30am, K226
Kohlberg 205, x8107, soconne1

WHERE THIS COURSE FITS. This course is a survey of development economics. The prerequisite is Ec 1. Students who want to count the course towards a minor in Asian Studies, Black Studies, or Peace and Conflict Studies should inform me early in the semester and write their term paper on a topic appropriate to the relevant minor. The course can also be counted towards a minor in Public Policy. This course is not intended for students planning to offer Development as an honors field (Ec 181 is worth only 1 credit if you have already taken 81).

COURSE OBJECTIVES. Development economists use the tools of economic analysis to develop robust insights about the determinants of living standards in developing economies. This course covers mainstream approaches to development experience in Africa, Asia and Latin America since WWII. The objective of the course is to develop the student's ability to apply the tools of economic analysis to contemporary debates in development policy.

REQUIRED TEXTS. [1] Perkins, Dwight H., Steven Radelet, and David Lindauer (2006), *Economics of Development*, 6th Edition (New York: W. W. Norton.); [2] Collier, Paul (2007), *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (Oxford: Oxford University Press); [3] Banerjee, Abhijit V., Roland Bénabou, and Dilip Mookherjee, eds, *Understanding Poverty* (Oxford: Oxford University Press).

OTHER REFERENCES. See the supplementary readings for each week. A good interdisciplinary overview of many development issues appears in Szirmai, A. (2005), *The Dynamics of Socio-Economic Development: An Introduction* (Cambridge: Cambridge University Press). For a deep approach using mainstream economics see 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 database, accessible via Tripod, is a complete index of the economics journal literature. The leading non-technical development journals are *World Bank Research Observer* and *World Development*; see also the World Bank's annual *World Development Report* and *ABCDE* series (Annual Bank Conference in Development Economics) for up-to-date treatments of leading issues in development economics. For cross-country 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: Attendance is required. If you have predictable attendance conflicts, please work these out with me at the beginning of the semester.

Participation: All students are expected to contribute regularly to class discussions. I will often hand out discussion questions in advance.

Grading: Midterm exam, 25%. Final exam, 40%. Paper, 25%, Attendance/participation, 10%.

Make-up exams: I only give make-up exams for an emergency or medical excuse certified by the Dean's office or Worth Health Center.

Late term papers: Your grade on the paper will be reduced by 1/3 of a grade for each 2 days the paper is late.

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. 10-12 pages of double-spaced text (not including references, tables, and figures, which can be at the end). Identify a topic that interests you, and follow up references in your readings 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 (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'?). Present the relevant analytical framework in your paper and develop an answer in light of your evidence.

Term paper deadlines

--by Thurs Oct 9, in class: Proposed research question (1 paragraph). Proposals returned by me by Weds Oct 15. Approval required.

--by Thurs Oct 23, in class: Annotated outline (2 pages, with at least 4 refs). Outline the paper and indicate the analytical framework and evidence you plan to use. Approval required.

--by Thurs Nov 13 (this step optional): Rough draft of paper to Writing Center to be WAed.

--by Thurs Dec 4, in class: Final draft to me in hard copy; also an electronic copy by email (see note under 'course policies' about late papers).

WEEKLY READINGS. All starred (*) readings are required. They are available either in required texts, on blackboard [bb], 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.

Week 1 (Tues 9/2) Development and economic growth

Key concepts: Global development patterns; PPP adjustment; growth, factor accumulation, total factor productivity; social infrastructure.

*Perkins, Radelet and Lindauer (PRL) text, chapters 1-3.

*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) [bb]

Week 2 (Tues 9/9) Growth models

→→ Friday Sept 12 is the end of drop/add period.

Key concepts: Harrod-Domar, Solow, and new growth models; capital fundamentalism, convergence; institutions; the Lewis model.

*PRL, chapter 4.

*Acemoglu, D., S. Johnson and J. Robinson (2006), "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91, December: 1369-1401 [bb] <or: same authors, *Understanding Poverty*, chapter 2: 19-36>

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- Easterly, W. (2002), *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* (Cambridge, MA: MIT Press)
- Lewis, W. Arthur (1954), "Economic Development with Unlimited Supplies of Labor," *The Manchester School of Economic and Social Studies* 22, May: 139-92
- Lucas, Robert E. (1988), "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22(1), July: 3-42
- North, D. (1991) "Institutions," *Journal of Economic Perspectives* 5: 97-112
- 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)
- 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
- Rodrik, Dani (2007), *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton: Princeton University Press)

Week 3 (Tues 9/16) States and markets

→→ **Tues 9/16 SOC in Nairobi; class rescheduled to Thursday 9/18, 9-1020pm.**

Key concepts: market failure; government failure; rent-seeking; macroeconomic stabilization; structural adjustment; Washington Consensus; political economy vs. normative policy analysis.

*PRL chapter 5.

*Engerman, S. L. and K. L. Sokoloff (2006), "Colonialism, inequality, and long-run paths of development," chapter 3 in *Understanding Poverty* [UP]: 37-62

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- Bates, Robert H. (1981), *Markets and States in Tropical Africa* (Berkeley: University of California Press)
- Hayami, Y. and Y. Godo (2005), *Development Economics: From the Poverty to the Wealth of Nations*, 2nd ed (Oxford: Oxford University Press)
- Saez, E. (2006), "Redistribution Toward Low Incomes in Richer Countries," in A. V. Banerjee *et al.*, eds, *Understanding Poverty* (Oxford: Oxford University Press)
- Vishny, Robert and Andre Shleifer (1993), "Corruption", *Quarterly Journal of Economics* 108(3): 599-617

Week 4 (Tues 9/23) Inequality and poverty

Key concepts: Lorenz curve and Gini coefficient; poverty lines; pro-poor growth; targeting; cash transfers

*PRL chapter 6.

*Piketty, Thomas (2006), "The Kuznets Curve: Yesterday and Tomorrow," UP chapter 4.

*Ravallion, Martin (2006), "Transfers and Safety Nets in Poor Countries: Revisiting the Trade-Offs and Policy Options," UP chapter 14 [bb]

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- Besley, Timothy and Louise J. Cord, eds. *Delivering on the Promise of Pro-Poor Growth: Insights and Lessons from Country Experiences*. Washington, D.C.: World Bank; Houndmills, U.K. and New York: Palgrave Macmillan.
- Firebaugh, Glenn (2003), *The New Geography of Global Income Inequality* (Cambridge, MA: Harvard University Press).
- Grosh, M. (1992), "The Jamaican Food Stamps Programme: A Case Study in Targeting," *Food Policy*, February.

Weeks 5-6 (Tues 9/30 and Tues 10/7) Population and human resources

→→ **Thurs Oct 9 One-paragraph paper proposal due in class.**

Key concepts: Demographic transition; neoclassical model of fertility behavior; human capital; returns to education; epidemiological transition; randomized evaluation.

- *PRL, chapters 7 (Population), 8 (Education) and 9 (Health).
- *Eswaran, Mukesh (2006), "Fertility in Developing Countries," UP chapter 10
- *Schultz, T. Paul (2006), "Fertility and Income," UP chapter 9
- *Case, Anne (2006), "The primacy of education," UP chapter 18

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- 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
- Galor, O. and D. N. Weil (1996), "The gender gap, fertility, and growth," *American Economic Review* 86(3), June: 374-87
- Kremer, M. (1995), "Research on Schooling: What We Know and What We Don't: A Comment," *World Bank Research Observer* 10(2)
- 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>)
- Mammen, K. and C. Paxson (2000), "Women's Work and Economic Development," *Journal of Economic Perspectives* 14(4), Fall
- 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

→→ Midterm Exam in class Thurs Oct 9, covering wks 1-5.

***** Fall Break, week of Monday Oct 13 *****

Week 7-8 (Tues10/21 and Tues 10/28) Trade, technology, and industrialization

→→ Thurs Oct 23 2-page outline and annotated bibliography due in class

Key concepts: Comparative and absolute advantage; infant-industry argument; effective protection; ISI and export promotion; technological capability; tacitness and circumstantial sensitivity; labor costs; agglomeration; global supply chains.

- *PRL, chapters 11 (pages 415-end: Foreign Direct Investment), 18 (Industry) and 19 (Trade and Development).
- *Hausmann, R. and D. Rodrik (2003), "Economic Development as Self-Discovery", *Journal of Development Economics* 72(2), December: 603-33 [bb]

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- Gallup, John Luke and Jeffrey D. Sachs with Andrew Mellinger (1999), "Geography and Economic Development," in Boris Pleskovic and Joseph E. Stiglitz, eds, *Annual World Bank Conference on Development Economics 1998*. Washington, D.C.: The World Bank.
- 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.
- 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
- Krugman, Paul R & Venables, Anthony J, 1995. "Globalization and the Inequality of Nations," *Quarterly Journal of Economics* 110(4), November: 857-80
- Lal, D. (1999), *Unfinished Business: India in the World Economy* (Oxford: Oxford University Press).
- Limão, Nuno and Anthony J. Venables (2002), "Transport Costs, Infrastructure and Growth," *World Bank Economic Review* 15(3): 451-479
- Noland, Marcus and Howard Pack (2003), *Industrial Policy in an Era of Globalization: Lessons from Asia* (Washington, D.C., Institute for International Economics)
- Rodrik, Dani (2006), "Industrial Development: 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*
- 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
- World Bank (1994), *The East Asian miracle: economic growth and public policy* (Washington, DC: The World Bank)

Week 9-10 (Tues 11/4 and Tues 11/11) Aid, the resource curse, and the bottom billion

→→ Thurs Nov 13 (optional): your paper to the Writing Center.

Key concepts: poverty traps; conflict curse; natural resource curse; real exchange rate and dutch disease, conditionality; selectivity.

*PRL, chapters 11 (399-415), 14 (Foreign aid) and 17 (Primary exports)

*Collier, *The Bottom Billion*

*Banerjee, Abhijit V. (2006), "Globalization and All That," UP chapter 6

*Bardhan, Pranab (2006), "The Global Economy and the Poor," UP chapter chapter 7

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

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*

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)

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

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

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

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*.

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

Week 11-12 (Tues 11/18 and Tues 11/25) Agriculture and rural development

*PRL chapter 16.

*Eswaran, M. and A. Kotwal (2006), "The Role of Agriculture in Development," UP chapter 8

*Townsend, R. M. (2006), "Credit, Intermediation, and Poverty Reduction," UP chapter 23

Key concepts: Agricultural surplus; Green revolution; induced innovation; risk and vulnerability; sharecropping; microcredit; microinsurance.

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- 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
- 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>
- Hayami, Y. and Y. Godo (2005), *Development Economics: From the Poverty to the Wealth of Nations*, 3rd ed (Oxford: Oxford University Press)
- 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
- O'Connell, S. A. (2006) "The agricultural surplus in dual-economy models" (blackboard)

Week 13 (Tues 12/2) Capital flows

→ Final draft of paper due Thurs Dec 4 in class.

Key concepts: Debt sustainability, Asian financial crisis, moral hazard, adverse selection.

*PRL chapters 13 (Financial policy) and 15 (Foreign debt and financial crises)

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

→→ FINAL EXAM at scheduled time during finals week

Subject to revision. This version September 8, 2008.