This seminar is a survey of development economics, excluding the transition economies. To use the seminar towards an Asian Studies or Black Studies minor, a student must consult with me in at the beginning of the semester so that we can adapt writing assignments. The seminar can also be used for a Public Policy minor. **Prerequisites:** Ec 11 and Ec 21. **Recommended:** Ec 31. **Note:** Students who have taken Ec 81 or its equivalent elsewhere can get only 1 credit for Ec 181.

**REQUIRED TEXTS**


**OTHER REFERENCES**


United Nations Development Program (annual) *Human Development Report*. [Treats distributional and gender issues as central to development; extensive cross-country data.]

World Bank (annual), *World Development Report*. [Covers a new topic each year and includes an extensive appendix with cross-country data; series is on Honors Reserve, recent issues on Tripod as e-books.]

You can also browse the Honors Reserve section for many useful references. There are good advanced surveys of most major development topics in the multi-volume *Handbook of Development Economics* (Honors Reserve). 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, the Economics Department web page has some useful data links; via Tripod>Databases>Economics 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 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.
- In preparing your paper, do the assigned reading and check Meier & Rauch for relevant material. You are not restricted to these sources; be enterprising.
- Seminar papers should be roughly 2,000 words. Make it clear, lively and fun to read. 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.

**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 Monday of week 13 at 5pm for Wednesday’s seminar, and Wednesday of week 13 at 5pm for Friday’s seminar.
- Students will present their papers in a roundtable discussion at the final seminar (week 13).
- Students must email a 1-page “executive summary” of their paper to all participants by 5pm on the day before the final seminar.

**Grading:** The seminar is worth 2 credits and you will get 2 letter grades (which may be the same). The first is for seminar papers, 20% each (= 40%) and your term paper (60%). The second is for your final exam (during finals week in December, 80%) and your performance on problem sets (20%).

**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 (of Mon 8/30): Overview
No papers this week.

Week 2 (Mon 9/6): Economic growth
Paper #1, Convergence and divergence / Paper #2: Governance and productivity

Week 3 (Mon 9/13): The role of the state
Paper #1, Institutions and growth / Paper #2, Growth and poverty alleviation in India

Week 4 (Mon 9/20): Human resources
Paper #1, The East Asian miracle / Paper #2, Randomized evaluation of social interventions

Week 5 (Mon 9/27): Modernizing agriculture
Paper #1, Learning about agricultural technology / Paper #2, Agriculture in Africa

Week 6 (Mon 10/4): Inequality and dualism
Paper #1, Absorbing China’s labor surplus / Paper #2, The urban informal sector;

FALL BREAK: Week of Monday October 11

Week 7 (Mon 10/18): 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 (Mon 10/25): Technology, trade and globalization
Paper #1, Acquiring technological capability / Paper #2, Trade and agglomeration

Week 9 (Mon 11/1): Finance, insurance, and risk
Paper #1, Mutual insurance and self insurance / Paper #2, Microfinance

Week 10 (Mon 11/8): Public spending, development projects, and aid
Paper #1, Poverty targeting / Paper #2, Cell phones and market integration

Week 11 (Mon 11/15): Fiscal and Monetary management
Paper #1, Populism / Paper #2, Commodity windfalls

Week 12 (Mon 11/22): Capital flows and financial crises
Paper #1, Sudden stops / Paper #2, Inflation targeting

Week 13 (Mon 11/29): 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, Monday 8/30 – Overview
Readings
PRL: Chapters 1 & 2.
M&R: Section I.A.

Exercises
See “Week 1 pset” on blackboard.

WEEK 2, Monday 9/6 – Economic growth
Readings (Beware – LOTS of reading this week.)
PRL: Chapter 3, Chapter 4:103-135.
Rodrik: Chapters 1-3.
UP: Chapter 5 (Aghion and Aghion)
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?


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?


WEEK 3, Monday 9/13 – The role of the state
Readings (Beware – Another week with lots of reading.)
PRL: Chapter 5.
Rodrik: Chapters 5 and 6.
UP: Chapters 2 (Acemoglu, Johnson and Robinson) and 3 (Engerman and Sokoloff)
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?


Paper #2, Charter cities: Paul Romer was one of the originators of the new growth theory in the mid-1990s. His latest idea is that countries can leapfrog the development process by creating entirely new “charter cities” in which the environment for investment and growth is guaranteed by rules borrowed from elsewhere (http://www.chartercities.org/). What is the intellectual and empirical basis for this view? Is it going anywhere?


WEEK 4, Monday 9/20 – Human resources
Readings
PRL: Chapters 7 – 9.
UP: Chapters 9 (Schultz), 10 (Eswaran), 18 (Case).
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?

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.


**WEEK 5, Monday 9/27 – Modernizing agriculture**

**Readings**

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

UP: Chapters 8 (Eswaran & Kotwal) and 24 (Duflo).

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

**Exercises:** See “Week 5 pset” on blackboard.

**Paper #1, Learning about agricultural technology:** Are smallholder farmers in Africa aware of the most profitable opportunities? How, and how rapidly, does social learning take place when new technologies become available?


**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. But the agricultural sector has not taken off. What are the deeper constraints?


WEEK 6, Monday 10/4 – Inequality and dualism

Readings:
PRL: Chapter 6.
UP: Chapters 4 (Piketty), 13 (Saez).
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 (informal sector).

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?


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?


FALL BREAK, WEEK OF Monday 10/13

WEEK 7, Monday 10/18 – 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.
UP: Chapter 6 (Banerjee).
M&R: §II.4(big push), Note III.A.2(ISI and infant industry argument), §III.A.1(Ranis typology)

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?


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?


Week 8, Monday 10/25 – Trade, technology, and globalization

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

Rodrik: Chapters 7-end.

UP: Chapter 7 (Bardhan).

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?

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


**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?


**Week 9, Monday 11/1 – Rural markets: risk, credit, and insurance**

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

PRL: <review> Chapter 16.

UP: Chapters 22 (Morduch) and 23 (Townsend).

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?


**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?


Week 10, Monday 11/8 – Public spending, development projects, and aid

Readings:
PRL: Chapter 10; Chapter 11: 399-415, Chapter 12, Chapter 14.
UP: Chapters 14 (Ravallion), 15 (Mookherjee), and 21 (Kremer).
M&R: §V.4(Easterly on aid and growth).
Also required (on blackboard): WWS 2005 handout on poverty targeting.

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? [Note: all students will have read Ravallion’s chapter.]


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)


Week 11, Monday 11/15 – Fiscal and monetary management

Readings:
PRL: Chapter 13, Chapter 21.
UP: Chapter 19 (Besley & Ghatak).
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.

**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?


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?


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


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, Monday 11/22 – Capital flows and financial crises**

**Readings:**

- PRL: Chapter 15.
- Sachs and Larrain 1993, Chapters 6, 21, & 22 (in Ec 181 binders on General Reserve).
- M&R: §V.3 (Eichengreen on taming capital flows).

**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?


**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?


**Week 13, Monday 11/29 – 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.

Subject to revision. This version Sept 7, 2010.