

University of California, San Diego
Econ 116: Economic Development
Fall 2008

T TH 9:30-10:50am, Center Hall 119

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Office: Econ trailer 103 (*aka* Econ Anex).

Office hours: T-Th 1:00-2:00pm or by appointment.

Course description: This course is intended to provide an introduction to the economic problems of development in the formerly Third world countries (Less Developed Countries, LDC) and their interaction with developed economies. The text for the course is:

Meier, Gerald M. and James E. Rauch. *Leading Issues in Economic Development*. Eighth edition, 2005.

Readings marked with an (*) are required. The rest are optional.

Grading: The grade will be determined by four problem sets (20%), one midterm exam (30%), and a cumulative final exam (50%). The problem sets are going to be graded on the following basis: ✓⁺ (5 points), ✓ (4 points), ✓⁻ (2 points). There will be no make-up exams nor late problem sets accepted.

Each problem set will have two sections. The first section will be due on class according to the table below, graded as mentioned, and answers will be posted on the class web site. The second section will serve as a study guide for the exams, but no answer key will be handed out for this section before the exam. The exams will have questions included in the problem sets or slight variations of them. In any case, solving the problem sets before looking at the answers will be an excellent study guide for the exams.

The mid-term exam will take place on November 6, 2008.

| Problem set # | Date | Due date |
|---------------|-------------|-------------|
| 1 | October 7 | October 14 |
| 2 | October 21 | October 28 |
| 3 | November 13 | November 20 |
| 4 | November 25 | December 4 |

Review sessions and TAs: The TAs for this course are Kirti Gupta and Michael Madowitz. They will be in charge of most of the grading, holding office hours and some review sessions to be scheduled. Please check WebCT and announcements in class.

WebCT will have, in due time, the problem sets and their answers, the slides for each class, answers to the exams, and all other relevant information about the class.

Course outline

1. Introduction:

- Definition of development.
- Measurements of development.
- Multidimensional view of development.
- Human Development Index (HDI).
- Recent slow growth in LDC, but improvement in the “usual” determinants of growth.
- A quick review of LDC countries’ policies on recent times.

Readings: xviii-ix*, 2-14*, 15-29, 32-44*.

Easterly, William. 2007. “Was Development Assistance a Mistake?” *American Economic Review* 97 (May): pp. 328-332.

2. Historical perspective

- Paths to development.
- Lewis’ argument.
- Matsuyami’s model.
- Murphy, Shleifer and Vishny’s model.

Readings: 81-131*.

3. International trade and technology transfer

- International trade.
- Natural resource abundance and growth.
- Import substitution and industrialization.
- Protection.
- Technology transfer.

Readings: 133-150*, 151-162, 163-174*.

4. Education, Health and Demographics.

Education

- Economic impact of education on growth.
- Generating Human Capital.
- Ability differences and spillovers.
- School inputs.
- Child labor and schooling.

Health

- Poor health and nutrition in LDC.
- Incentives for pharmaceuticals.
- AIDS and HIV in LDC.

Demographics

- Current situation.
- World population and growth.
- Determinants of fertility.

Gender and development

- Gender gaps in education and income.
- Traditional roles of women and their effect on women's education.
- Incentives of poor families to educate girls or boys.
- "Missing women" on many LDC.

Readings: 183-193*, 187-193*, 194-197, 198-200*, 201-205, 206-247*, 248-259, 260-283*, 284-291.

UNAIDS. *Aids Epidemic Update*. http://data.unaids.org/pub/EpiReport/2006/2006_EpiUpdate_en.pdf

5. Investment

- AK model.
- Domestic savings.
- Foreign aid.
- Micro-credits (Grameen Bank).

Readings: 293-296*, 300-302*, 303-308, 315-330*

*Burgess, Robin and Pande, Rohini. 2005. "Do Rural Banks Matter? Evidence from the Indian Banking Experiment." *American Economic Review* 95 (June): pp. 780-782, 789, 791-793.

6. Urban growth and infrastructure

- Public goods demand in cities.
- Links to health and education.
- Overcrowding.
- Urban unemployment.
 - Informal sector.
 - Unpaid (family) jobs.
 - Underemployment.

Readings: 331-335*, 336-337, 338-342*, 343-352

*Bruhn, Miriam. 2008. "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico." World Bank's Policy Research Working Paper # 4538 (February).

7. Migration (rural-to-urban and international)

- Todaro's model.
- Social networks.
- Other reasons to migrate.
- Unemployment "relief" through international migration.

Readings: 353-354*, 355-359, 360-364*, 365-370, 371-380*.

8. Income distribution

- Measures of income distribution.
 - Lorenz curves.
 - Gini coefficient.
 - Log variance of income.
 - Theil index.
- Effect of development on income distribution (Kuznets curve).
- Brief notes on inequality of opportunities.

Readings: 433-443*, 449-480*, 481-488.

9. Agriculture

- Labor force in agriculture and productivity.
- Climate and technology.
- Food, hunger, and famine.
- Uncertainty and lack of complete markets.
- Incentives in sharecropping.

Readings: 381-392*, 404-406.

10. Political Economy

- “Proper role of Government”.
- Rent seeking and Government failure.
- State capacity.

Readings: 489-493*, 494-498, 502-535*, 536-572, 573-580*.

11. Development and the environment

- Environmental problems and indicators.
- Environmental Kuznets curve.
- International trade and its impact on the environment.
- Are LDC on “sustainable” paths? New policies.

Readings: 581-602*, 612-621, 622-631*.