

Economic Development (ECON 116)

Summer I, 2010

Instructor: Ivan Major

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Office hours: TuTh 11:00–11:50 p.m.

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Lectures: MTuWTh 9:30–10:50 p.m.

Location: SOLIS 110

Syllabus

Course Overview

This course builds on basic micro- and macroeconomic concepts and models and applies these models to the analysis of the economic development in less developed countries (LDCs). Development economics is much more than the pure replication of basic economics. It uses the tools of international economics, labor economics, gender studies and the economics of education, healthcare and the environment in order to better understand why some countries have been lagging behind in development, what are the decisive factors and the consequences of their specific development path, and what kind of internal and external (international) policies foster or hinder their development. As a “hot” and timely topic we shall discuss the impact of the international financial crisis on LDCs.

Required textbook

Meier, Gerald M. and James M. Rauch, *Leading Issues in Economic Development*, 8th edition, 2005. (referred to as **MR**)

Course Requirements and Grading:

Final grades will be based on your team presentation, on a mid-term in-class, closed book exam and on your final exam.

Group presentation and outline	10%
Midterm exam	40%
Final exam	50%

I'll use a curve in calculating your grade based on the class's average.

Lectures

You are required to attend all lectures. The lectures will cover topics that are not necessarily included in the textbook. If you miss a class, borrow someone else's notes. In addition, power point slides can be found on the course website at ted.ucsd.edu. It is recommended that you download and print the slides prior to class for taking notes.

Group Presentation and Outline

You are required to work in teams on different issues related to development and present the results of your analysis in a class presentation. You are also required to hand in your group work as a detailed outline of your presentation. Papers, presentations and discussion will help you apply the sophisticated tools that *Development economics* offers. By working on a project you will also better understand the role of history, culture and institutions in shaping the development of different regions and countries. Groups and topics are outlined below.

Presentations should not run longer than 10–15 minutes. You are encouraged to use a slide presentation. Please send your slide presentation to me and to the TA(s) by email before 3pm the day of your scheduled presentation. Each presentation will be followed by a discussion. The outline of your presentation should not be longer than 5 pages double-spaced. Papers are due at the beginning of class on the day of your scheduled presentation.

Presentation Topics and Groups

Students will be randomly assigned to small groups of different presentation topics. Group assignments are listed below. You are encouraged to see your TA and Professor Major for advice on your paper and presentation.

What Is Economic Development?

Tuesday, July 5

Group 1: Current measures and trends of economic development by regions in LDCs.

Development in Historical Perspective

Thursday, July 7

Group 2: Early starters, laggards and latecomers: economic and social development by regions.

Demography, Education and Healthcare

Tuesday, July 12

Group 3: Population growth, healthcare, education and development in LDCs.

Employment, the Informal Sector and Migration

Thursday, July 14

Group 4: Formal and informal employment in LDCs.

MONDAY, JULY 18 – MIDTERM EXAM

Agriculture and Development

Tuesday, July 19

Group 5: Agricultural development in different regions..

Finance and Investment

Thursday, July 21

Group 6: The financial sector and the current financial crisis in LDCs.

Tuesday, July 26

Group 7: Income inequality and wealth in LDCs – a comparative approach

Group 8: Development and democracy in LDCs – a comparison of different regions.

SCHEDULE

Week 1

1. Introduction and basic concepts of development
 - a. Measuring economic development
 - b. Economic performance of less developed countries
 - c. Development in a regional perspective

Readings: **MR Overview**, 1–5, *Note I.A.1*, Bhagwati, 12–20, World Bank, 27–30, Easterly, 34–40, *Note I.C.1*, *Comment I.C.1*, *Comment I.C.2*, *Note I.C.2*, 73–80.

2. Historical perspective
 - a. Demographic trends
 - b. “Extensive growth” – “intensive growth”
 - c. Import substitution – export-led growth
 - d. FDI and development
 - e. Path dependence
 - f. Historical and regional differences among the less developed countries
 - g. Country case studies

Readings: **MR Overview**, Reynolds, *Comment II.1*, Lewis, *Note II.1*, *Note II.2*, Matsuyama, Murphy, Schleifer and Vishny, *Comment II.3*, 81–117.

Week 2

3. Human resources
 - a. Population and demography
 - b. Health
 - c. Gender and development
 - d. Country case studies

Readings: **MR Overview**, *Note IV.A.1*, Psacharopoulos, 181–192, World Bank, 194–197, Hanushek, 201–205, *Note IV.C.1*, 247–248, Birdsall, 248–254.

GROUPS 1 and 2 PRESENT

4. Employment, migration and the informal sector
 - a. The structure of employment
 - b. The labor market
 - c. Waves of migration

- d. The informal sector: regional differences
- e. Country case studies

Readings: **MR Overview**, Preston, 331–336, Lewis, Todaro, *Note VI.B.1*, Tidrick, *Note VI.B.2*, 355–370, Fields, Banerjee, 371–376.

Week 3

- 5. Agriculture
 - a. A source of „taking-off”
 - b. Ownership structure and land reform in agriculture
 - c. The reasons of food shortages in the developing countries
 - d. The microeconomics of the rural economy
 - e. Agricultural policies
 - f. Development strategies for agriculture
 - g. Induced technical and institutional change
 - h. Agricultural pricing policies

Readings: **MR Overview**, 381–383, Timmer, *Note VII.A.2*, 394–398, Stiglitz, 400–403, Stiglitz, Binswanger and Rosenzweig, Bardhan, Braverman and Guasch, Singh, Squire and Strauss, 416–430.

GROUPS 3 and 4 PRESENT

- 6. Finance and investment
 - a. Savings and investment
 - b. The „AK model”
 - c. Money markets
 - d. Financial liberalization in LDCs
 - e. Government finances and financial development
 - f. Financial shocks in LDCs
 - g. Case studies

Readings: **MR Overview**, *Note V.1*, Blomstrom, Lipsey and Zejan, Levine, 293–308, Easterly, 315–319.

Week 4

- 7. International trade and the transfer of technology and knowledge
 - a. Import substitution and export driven growth
 - b. International production networks
 - c. Foreign direct investment
 - d. Case studies

Readings: **MR Overview**, *Note III.A.1*, *Note III.A.2*, Ranis, Deardorff, *Comment III.A.1*, Bela Balassa, Rodrik, *Note III.A.3*, *Note III.B.1*, Pack, *Note III.B.2*, 133–181.

Monday, July 18: MIDTERM EXAM (during second half of class)

- 8. Income distribution

- a. The measurement of income inequality
- b. Income inequality and unequal distribution of wealth
- c. Economic growth and income (and wealth) inequality
- d. Inequality and poverty
- e. Inequality, poverty and development
- f. The „U hypothesis”
- g. The informal sector and income distribution
- h. The „inverted U” curve
- j. Economic growth and income distribution
- k. Case studies

Readings: **MR** Overview, Note VIII.1, 433–439, Kuznets, Robinson, Rauch, Comment VIII.A.1, 444–455, *Comment* VIII.A.2, 463–464, Alesina and Perotti, 468–472.

GROUPS 5 and 6 PRESENT

Week 5

- 9. Political economy
 - a. The role of the state in LDCs
 - b. The „activist” state versus the „watchdog state”
 - c. Rent seeking
 - d. Adverse selection and moral hazard in government regulation
 - e. Government failure
 - f. Institutions and economic performance
 - g. Bureaucratic structure and performance in LDSc
 - h. Case studies

Readings: **MR** Overview, Stern, 489–498, *Comment* IX.A.2, *Note* IX.B.1, Krueger, *Comment* IX.B.1, *Comment* IX.B.2, 500–509, Easterly and Levine, Knack and Keefer, Evans, Rodrik, Rauch and Evans, 521–580.

- 10. Development and the Environment, and **Final Review**
 - a. Environmental problems in less versus more developed countries
 - b. North-South Trade and the global environment
 - c. The “environmental Kuznets curve”
 - d. The environment and the rule of law in less developed countries

Readings: **MR** Overview, 581–587, The World Bank, 588–597, *Comment* X.1, 597–598, Chichilnisky, 599–601, *Comment* X.2, 601–602, Deacon, 603–611.

GROUPS 7 and 8 PRESENT

FINAL EXAM: , July 29, 8:00 a.m.–10:59 a.m., location: TBA