Economics 116: Economic development Winter 2005

Syllabus

Instructor: Iván Major		Visiting professor, Department of Economics, UCSD		
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		Office hours: TuTh 4:00–5:00 p.m.		
Lectures: TuTh 2:00-2	3:20 p.m.	Classroom: CENTR 115		
Teaching assistants: Zhigang Li		e-mail: <u>zli@econ.ucsd.edu</u>		
Office hours:		Sequoyah 207 Fr 10:00–12:00		
	Christopher Nekard	a e-mail: <u>cnekarda@ucsd.edu</u>		
Office hours :		117 Economics Mo12 :00–2 :00 p.m.		
	Daniel Puskin	e-mail: <u>dpuskin@ucsd.edu</u>		
Office hours:		117 Economics Tu 10:00–12:00		

Course outline

This course builds on basic micro- and macroeconomic concepts and models and applies those models to the analysis of the economic development in less developed countries (LDCs). But "Development economics" is much more than the sheer replication of basic economics. It applies the tools of international economics, health economics, labor economics, gender studies and the economics of education in order to better understand why have some countries been less developed than others, 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 economic development.

You will be required to work in teams on different issues of development and present the results of your analysis in class. Each presentation will be followed by a discussion. Presentations and discussion will help you apply the sophisticated tools *Development economics* offers, but you will also better understand the role of history, culture and institutions in shaping the development of different regions and countries.

Required textbook:

Meier, Gerald M. and James M. Rauch, *Leading Issues in Economic Development*, Seventh edition, 2000, or 8th edition (2005). (referred to as **MR**) Course Reader for ECO 116, by Professor James Rauch, extended (referred to as CR)

Lectures and Problem Sets

The lectures will cover topics that are not necessarily included in the textbook or in the reader. If you miss a class, borrow someone else's notes. You will be required to work on 3 problem sets. Work can be done in teams. Late submission of problem sets will not be accepted. Due date for problem sets:

- Problem set 1 is due by 7th class
- Problem set 2 is due by 12th class
- Problem set 3 is due by 16th class

Mid-term exam: February 3, 2005 (Moved from February 4!!!) Final exam: March 17, 2005

Final exam will not be cumulative.

Grading

Problem sets	30%
Class participation	5%
Midterm exam	30%
Final exam	35%

Grade scale

A±	B±	C±	D
81-100	70–80	60–69	50–59

Course Outline

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

Readings: 7th edition: MR, Ch. I, Overview, 1–7, Bhagwati, World Bank, 13–22, World Bank, World Bank, Cardoso and Fishlow, Edwards, Srinivasan, ODS, 36–68, M-R, I.C.1–I.C.2, 69–76;
8th edition: 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.

CR, World Bank, 1–17, **CR**, F. Jánossy, 597–632.

- 2. week: 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: 7th edition: MR, Ch. II, Overview, Reynolds, W.A. Lewis, Matsuyama, Murphy, Shleifer and Vishny, Comment II.3, 77–118;
 8th edition: Overview, Reynolds, Comment II.1, Lewis, Note II.1, Note II.2, Matsuyama, Murphy, Shleifer and Vishny, Comment II.3, 81–117. CR, Easterly, 17–41, CR, Engerman–Sokoloff, 41–95.
- 3. week: Human resources
 - a. Population and demographic trends
 - b. Health
 - c. Gender and development
 - d. Country case studies

Readings: 7th edition: MR, Ch. V, *Overview*, Note IV.A. 1, Benhabib and Spiegel, Psacharopoulos, 213–226, Hanushek, Jong-Wha-Lee and Barro, World Bank, *Note* V.B.1, Birdsall, 229–248, World Bank, Hill and King, ILO, Buvinic and Lycette, Collier, Sen, 257–284;
8th edition: *Overview*, *Note* IV.A.1, Psacharopoulos, 181–192, World Bank, 194–197, Hanushek, 201–205, Note, IV.C.1, 247–248, Birdsall, 248–254.
CR, Duflo, 111–116, CR, Case and Deaton, 117–136, CR, Kremer, 137–160, CR, World Bank, 161–210, and 221–258, CR, Bloom and Sachs, 211–220, CR, Klasen and Wink, 259–276, CR, Chattopadhyay and Duflo, 277–312.

First problem set is due by 7th class

- 4. week: 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: 7th edition: MR, Ch. VI, *Overview*, Preston, 289–294, Lewis, Todaro, *Note* VI.1, Tidrick, *Note* VI.2, ILO, Livingston, Fields, Banerjee, 297–327;
 8th edition: *Overview*, Preston, 331–336, Lewis, Todaro, *Note* VI.B.1, Tidrick, Note VI.B.2, 355–370, Fields, Banerjee, 371–376.
 CR, Henderson, 389–400.
- 5. week: 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: 7th edition: MR, Ch. VII, Overview, Lewis, 329–334, Stiglitz, Johnston, 336–345, Timmer, Note VII.B.1, Stiglitz, Binswanger and Rosenzweig, Bradhan, Braverman and Guasch, Singh, Squire and Strauss, Note, VII.D.1.
 8th edition: 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.

Mid-term exam (February 3)

- 6. week: 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: 7th edition: MR, Ch. III, Overview, Note III.1, Blomstrom, Lipsey and Zejan, U Tun Wai, McKinnon, 119–136, Patrick, Levine, Easterly, Kremer, Pritchett and Summers, Comment III.2, 138–154;
8th edition: Overview, Note V.1, Blomstrom, Lipsey and Zejan, Levine, 293–308, Easterly, 315–319.
CR, Galindo, Schianterelli and Weiss, 313–352, CR, Morduch, 367–388, CR, Hirschman, 541–596.

Second problem set is due by 12th class

- 7. week: 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: 7th edition: MR, Ch. IV, Overview, 155–158, Sachs and Warner, Note, IV.A.1, Ranis, Deardorff, Balassa, Bhagwati and Krueger, 161–190, Comment IV.A.2, Rodrik, Note IV.A.2, Note IV.B.1, Pack, Harrison, Note IV.B.2, 193–212;
 8th edition: 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.

CR, Eichengreen, 353–358, **CR**, Easterly, 359–366.

- 8. week: 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
 - i. Economic growth and income distribution
 - j. Case studies
- Readings: **7th edition: MR**, Ch. VIII, *Overview*, *Note* VIII.1, Kuznets, Ahluwalia, 375–391, Robinson, Rauch, *Comment* VIII.A.1, Alesina and Rodrik, Alesina and Perotti, 394–408;

8th edition: 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.

CR, Higgins and Williamson, 401–458, CR, Easterly, 459–478.

Third problem set is due by 16th *class*

- 9. week: 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 LDCs
- h. Case studies

Readings: 7th edition: MR, Ch. IX, *Overview*, Stern, 421–431, *Note* IX.B.1, Krueger,

Comment IX.B.1, *Comment* IX.B.2, Srinivasan, 434–445, Easterly and Levine, 456–470, Knack and Keefer, Evans, Rodrik, 471–496, Rauch and Evans, 508–515;

CR, Djankov et al., 479–516, **CR**, Kornai, 633–670.

8th edition: 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. week: Development and the environment
 - a. The "cost" of environmental protection
 - b. The microeconomics of the environmental problems
 - c. Environmental problems in LDCs and in the more developed countries
 - d. The environmental "Kuznets curve"
 - e. Trade and the environment
 - f. FDI and the environment
 - g. Case Studies

Readings: 7th edition: MR, Ch. X, Overview, World Bank, Comment X.1, Chichilnisky, Comment X.2, Deacon, 517–543, Hettige, Huq, Pargal and Whieler, 548–553, Pearce, Barbier and Markandya, Comment X.3, 554–559.
 8th edition: Overview, World Bank, Comment X.1, Chichilnisky,

Comment X.2, Deacon, Hettige and Huq, Pargal and Whieler, 581-621.

CR, Hamilton and Clemens, 517–540.

Final exam: March 17, 3:00–6:00 p.m.