Development Economics

EC 273: Development economics
Spring 2011

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Development economics

This course considers what we know about developing countries and the poor, and applies economic theory to help us understand the constraints of poverty. We will describe the economies of less developed countries and the lives of the poor, focusing on changes in poverty, inequality, demography, and health. We will consider theories and evidence for why some countries are rich and others poor. We will examine how labor, and credit markets function in poor countries and communities, and the consequences for health, education, and child labor. Since the international community plays an important role in many developing countries, we will discuss aid and the international institutions. If there is time, we will also examine migration and its consequences.

Prerequisites: Micro principals (131) and Macro principals (132); statistics and the theory courses will be useful, but not required.

Course Schedule

Thursday, February 3    PS 1 Due
Thursday, February 17   PS 2 Due
Tuesday, March 3        PS 3 Due
Thursday, March 8       No class, Spring Break
Thursday, March 10      No class, Spring Break
Thursday, March 17      In-class midterm (also St. Patrick’s Day)
Thursday, March 31      PS 4 Due
Thursday, April 14      PS 5 Due
Thursday, April 21      No class, Easter Weekend
Thursday, April 28      PS 6 Due
Saturday, May 14        Final Exam 9:00 a.m.

Texts


The Easterly book is an account of what has worked, and what has not, in growth and development in the past 50 years. Like all readings in the course, it must be evaluated critically — other readings will disagree with it. Almost all of the chapters are assigned, although not in order. The other chapters are interesting as well.

Under each topic I have marked required readings. Readings from sources other than Todaro and Smith or Easterly are linked on the course website on Blackboard Vista. Some of the readings come from economics journal articles, and may be difficult to understand. I do not expect you to understand everything in these articles, but I do expect you to have looked at them, and understood the parts we went over in class. Learning how to read original research, which may use techniques and terms with which you are not familiar, and get what you can out of it, is an important part of a tertiary education. For some topics I also give suggestions for further reading. These are not required nor expected, but allow you to expand on a topic if you find it interesting.

Course Requirements and Grades

The grading for this course consists of your best grades on five out of the six problem sets (30%), a midterm (30%) and a non-cumulative final (40%).

Problem Sets: There are six problem sets, of which I will count only the top five towards your final grade. Some of the exercises may involve obtaining data and calculations involving a spreadsheet.

Problem sets are due in class on the days listed in the course schedule above. You should mark them clearly with your name, the class, and the problem set number. They may be turned in early to my box in the economics department. I will post problem sets on Blackboard Vista under the Assignments section.

The problem sets will be graded on a 0-5 scale. Problem sets turned in on time and done completely will get a 3, 4 or 5. 5’s are rare. Complete late problem sets will receive a 2, as will any problem set turned in on time which was substantially incomplete. Problem sets not turned in, or late inadequate problem sets, receive 0.

You may discuss problem sets and do them together. Everyone must turn in a separate problem set. Exams will be similar to problem sets, so it is useful to fully understand the problem sets. Problem sets cannot be submitted for a regrade, but I will drop your lowest score.

Examinations: The midterm will take place in class, and the final during the scheduled exam period. Both are closed book. The dates for both are not flexible. If you have a documented disability which will require special accommodation, or if an athletic or other event will cause you to miss the midterm, you must let me know at least a week beforehand. I am willing to work with you beforehand, but there is not much I can do after a deadline has passed. I will deal with medical and personal emergencies on a case by case basis, but I will likely require a note from the appropriate dean.
Course Outline and Reading List

1. Introduction to development economics (~2 lectures)
The nature of development. What it is to be developed. The role of values. The Millennium Development Goals. What does the world look like now? What did it look like 200 years ago? How did we get here? Development as history.

Readings:
Todaro and Smith chapters 1-2.
Easterly chapter 1.


2. Population growth and development (~2 lectures)

Readings:
Todaro and Smith, chapter 6.
Easterly chapter 5.

Possible further reading: The Ultimate Resource 2 by Julian Simon argues that human ingenuity is the “ultimate resource.” Paul Ehrlich has been arguing for years (see The Population Bomb 1968) that overpopulation will bring doom to us all. Will he finally be right, as he argues in One With Nineveh: Politics, Consumption, and the Human Future (2005) and as Jared Diamond suggests in Collapse: How Societies Choose to Fail or Succeed (2005)?

3. Economic Growth (~3 lectures)

Readings:
Todaro and Smith, chapters 3, appendices 3.1 and 3.2.
Easterly 2, 3.
4. Growth accounting, convergence and empirical evidence (~2 lectures)
Convergence or divergence? Growth accounting. How well does the Solow model do? Inconsistent evidence. Can we make it better?

Readings: These readings are hard. We will go over substantial portions of them in class as well.


5. New Growth Theories and Coordination Failures (~2 lectures)
A brief introduction to new growth theory. Coordination failures and development

Readings:
Todaro and Smith, appendix 3.3 and chapter 4 (including case study).

Easterly 8 and 9.

6. Institutions and Long-Run Development (~2 lectures)
Why did Europe conquer the rest of the world? Are institutions the long-run driver of growth? What policies seem to harm growth?

Readings:

Easterly chapter 11 and 13.


Possible further reading: David Landes’ book The Wealth and Poverty of Nations examines the history of why some countries have done so well and other have not in the past 200 years. An even longer term perspective is given by Guns, Germs and Steel by

7. **Corruption (~1 lecture)**
*Institutions are made up of people, some of whom may be corrupt. Does it matter?*

**Readings:**
Easterly chapter 12.


8. **Poverty and Inequality (~3 lectures)**
*Measures of inequality. What are we measuring (or mismeasuring) and how do we measure it? Poverty: a different look at the distribution. How many poor are there? Are there better measures of the bottom of the distribution? Inequality and growth. The Kuznets curve.*

**Readings:**
Todaro and Smith chapter 5.


9. **The economic lives of the poor (1 lecture)**
*What do the poor do with their money?*

**Readings:**

Possible further reading: *Portfolios of the Poor: How the World's Poor Live on $2 a Day* by Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven provides an interesting glimpse at how the poor manage their money in the short term.
10. Education and child labor (~2 lectures)
Some see education as the best way to help the poor. But what if there are no jobs? How does child labor affect education?

Readings:
Todaro and Smith chapter 8 (also for the section on health and nutrition).
Easterly chapter 4.

11. Health, Nutrition and Labor (~2 lectures)
What do we know about global health? Does it affect growth? Is health a poverty trap? How have changes in nutrition contributed to growth?
Readings:
Todaro and Smith chapter 8.
http://www.jstor.org/stable/146149

12. Credit Markets (~3 lectures)
Credit markets and market failures. How microfinance works. Will microfinance change everything? A problem with credit—the long term.
Readings:
http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance_Where_Do_We.pdf
Possible further reading: *The Economics of Microfinance* by Beatriz Armendariz and Jonathon Morduch gives an overview of the ins and outs of microfinance.

13. Aid (~2 lectures)
*Does aid work? The resource curse and Dutch disease.*

**Readings:**
- Easterly chapter 6 and 7 (and chapter 2 which you have already read)
- Todaro and Smith chapter 14, only pages 728-738 “Foreign Aid”.


14. Urbanization and Migration (~2 lectures, time permitting)

**Readings:**
- Todaro and Smith chapter 7.