

EC 276 Political Economy of Developing Nations Fall 2000

Class Hour: Tu, Th 9:00
Class Room: Champion 236

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Tu 3:00-5:00, W 8:30-10

Short Description of the Course:

For the past fifty years, development policy has been oriented toward the reduction of poverty through equitable and sustainable economic growth. The experience has given economists partial but still incomplete answers to the overarching questions addressed in this course: How does international economic integration help or hinder sustainable growth? What are the appropriate roles of the market and of the state? How can we ensure that the benefits of economic growth are widely shared? How can we be certain that today's growth doesn't come at the expense of tomorrow's?

This course focuses first on the economic analysis of international integration, then on the role of the state in addressing market failure. We will study the interaction between poverty and growth, using a World Bank report to be published on October 1. Finally, within the contemporary framework set up in the first part of the course, we will consider several of the traditional themes of development economics: agriculture and rural organization; migration and urbanization; formal and informal labor markets; natural resources and the environment; and human capital and technological innovation.

A warning: despite its title, this course focuses on economic policy rather than on political economy.

Prerequisites:

EC 131 and EC 132 are prerequisites for this course. Non-majors who satisfy the prerequisites are especially welcome. In most cases, **junior and senior economics majors should take EC 375**, offered every Spring, instead of EC 276. The Cultural Diversity requirement can be fulfilled by taking either course.

Method:

Analytical tools will be developed using the seventh edition of Michael Todaro's textbook, *Economic Development*. The textbook will be supplemented by readings from *World Development Report 2000-2001: Attacking Poverty*, which is due out in October. We will also use selections from Deepa Narayan's *Voices of the Poor: Can Anyone Hear Us?*, and from a few articles to be distributed in class.

Students' grasp of this material will be tested in two in-class midterm exams (**October 5** and **November 9**) and a comprehensive final (**December 14**).

Although my class presentations will be focused primarily on analytical techniques, students will also be asked to develop expertise in policy design through the preparation of a position paper, as described below.

In spite of the large size of the class, attendance is required and active participation is expected. This is not a traditional lecture course. I feel free to ask questions in class and to call upon students randomly. I'd appreciate receiving a short e-mail message explaining any absence.

Position Papers:

Each student will identify and solve a problem facing economic policymakers in one particular country. These are individual projects, but students will have the chance to discuss their proposals with others working on similar problems or on the same country.

We will set up a grid of six countries (more or less, depending on final enrollment in the course) and six broad policy areas. On **September 19**, students will be asked to distribute themselves across the matrix so that each cell is covered by one policy analyst. The six broad (and overlapping) areas of policy are:

- international trade, including assembly operations, tariff and quota liberalization, regional trade agreements, and exchange rate regimes;
- labor markets, including labor standards, schooling, training for new technologies, health care, social insurance, and racial and gender bias;
- financial markets, including short-term capital flows, foreign direct investment, banking, and microfinance;
- agriculture, natural resources, and the environment;
- industrial organization, including competition policy, public enterprises, industrial regulation, innovation, and adoption of new technologies;
- governance, legal institutions, property rights, and corruption.

In each of these areas, special attention should be paid to the impact of public policy on the poor.

Specific problems are to be defined by **September 28**. Draft position papers will be due on **October 26**. Students will read and comment on one another's draft papers. Finally, each student will revise and resubmit his or her proposal. Revised papers will be due on **November 30**.

Detailed instructions about the preparation of the position paper will be given at each step of this process. Conciseness is a virtue in policy proposals; I expect most to be between twelve and fifteen pages long.

Summary of Requirements and Grading:

First exam, Thursday, October 5, 20%

Second exam, Thursday, November 9, 20%

Cumulative final exam, Thursday, December 14, 30%

Policy project, final revision, Thursday, November 30, 25%

Ongoing participation, 5%

The final exam will be given *only* at the time assigned by the Dean.

I recognize that the second midterm comes two days before the Notre Dame football game; I trust that travel plans can be made accordingly.

Other Remarks:

The work load of this course is reasonably heavy. A good deal of independent research is required. Regular attendance is required. I often present material in class which is not covered in the reading assignment. I also feel free to test students on material in the reading which was not covered in class. Know what you're getting into. Don't cheat. Don't plagiarize. Enough said.

Topical Outline with Assigned Readings:

I. The International Context: Trade and Finance

A. Contemporary Economic Integration (9/5)

Dani Rodrik, "How Far Will International Economic Integration Go?", *Journal of Economic Perspectives* 14:1, Winter 2000, pp. 177-186.

B. Gains from Trade (9/7-9/12)

"Trade Theory and Development Experience," Todaro, Chapter 12.

C. Trade and Development Policy (9/14-9/19)

"The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration," Todaro, Chapter 13.

D. International Factor Flows (9/21)

"Foreign Finance, Investment and Aid: Controversies and Opportunities," Todaro, Chapter 15.

- E. Interaction between Trade and Capital Flows (9/26-9/28)
“Balance of Payments, Third World Debt, and the Macroeconomic Stabilization Controversy,” Todaro, Chapter 14.
- F. Global Financial Instability (10/2)
Maurice Obstfeld, “The Global Capital Market: Benefactor or Menace?”,
Journal of Economic Perspectives 12:4, Fall 1998, pp.9-30.

First midterm October 5.

II. The Institutional Context: The State and the Market

- A. Externalities, Public Goods, Free Riders and Market Failure (10/10)
“Public Goods and Bads” and “Limitations of the Public-Good Framework” Todaro, pp. 425-427.
- B. Information and Market Failure (10/12)
World Development Report 1998/99, “Information, Institutions, and Incentives,” pp.72-80.
- C. The State and the Market (10/17)
“Planning, Markets, and the Role of the State,” Todaro, Chapter 16.
- D. The State and the Macroeconomic Framework (10/19)
“Financial Reform and Fiscal Policy,” Todaro, Chapter 17.
- E. State and Civil Society from the Perspective of the Poor (10/24)
Deepa Narayan, et.al., “State Institutions,” Chapter 3, and “Civil Society Institutions,” Chapter 4, in *Voices of the Poor: Can Anyone Hear Us?* (Oxford University Press, 2000) pp.82-171.

Draft position papers due October 26.

III. Poverty and Human Development

*Note: This section of the syllabus may be revised once **World Development Report 2000/2001: Attacking Poverty** becomes available (early October).*

- A. Economic Growth and Human Development (10/26)
- B. Defining Poverty (10/31)
Deepa Narayan, et.al., “Definitions of Poverty,” Chapter 2, in *Voices of the Poor: Can Anyone Hear Us?*, pp. 30-64.

- C. Poverty, Inequality, and Growth (11/2-11/7)
“Growth, Poverty and Income Distribution,” Todaro, Chapter 5.

Second midterm, November 9.

IV. Six Dimensions of the Development Challenge

- A. The Environment (11/14)
“The Environment and Development,” Todaro, Chapter 11.
- B. Agriculture (11/16)
“Agricultural Transformation and Rural Development,” Todaro,
Chapter 10.
- C. Urbanization and Migration (11/21)
“Urbanization and Rural-Urban Migration: Theory and Policy,”
Todaro, Chapter 8.
- D. Education (11/28)
“Education and Development,” Todaro, Chapter 9.
- E. Formal and Informal Urban Labor Markets (11/30)
“Unemployment: Issues, Dimensions, and Analyses,” Todaro,
Chapter 7.

Revised position papers due November 30.

- F. Population (12/5)
“Population Growth and Economic Development: Causes,
Consequences, and Controversies,” Todaro, Chapter 6.
- G. Concluding Reflections: Economics and Economic Development (12/7)