

**EC 276      Political Economy of Developing Nations      Fall 2001**

Tuesday, Thursday 9:00  
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**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 growth are widely shared? Does a relatively equal distribution of income stimulate future growth or hamper it?

This course begins by analyzing contemporary international integration. It then considers the scope of state action to address market failure. The third major section of the course studies the interactions among poverty, inequality, and growth. Finally, within this contemporary framework, the course picks up several of the traditional themes of development economics: vulnerability and insurance; migration and urbanization; agriculture and rural organization; formal and informal labor markets; education and demographic change.

Don't be misled by the title of this course. We will focus primarily on the analysis of economic change, *not* on the politics of development.

**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*, as background. The textbook will be supplemented by readings from the *World Development Report 2000-2001: Attacking Poverty*. We will also use a few articles which will be distributed in class and selections from Deepa Narayan's *Voices of the Poor: Can Anyone Hear Us?*, which is due to arrive in the BC bookstore on October 1.

Students' grasp of this material will be tested in two in-class midterm exams (**October 2** and **November 6**) and a comprehensive final (**December 17**).

My class presentations will be focused primarily on analytical techniques, but students will also be asked to experiment with policy design. One-quarter of the final course grade will be assessed on the basis of a group project. The class will divide into groups of three. Each group will study the economic situation of a particular developing country, choose a pressing economic problem to address, and develop a set of policies to solve that problem. A draft of the group's position paper will be due on **November 8**. The revised paper will be due on Monday, **December 10**. The papers should be very concise; I expect most to be fifteen pages long. Detailed instructions about this project will be given during the term.

## **Summary of Requirements and Grading:**

First exam: Tuesday, October 2, 20%

Second exam: Tuesday, November 6, 20%

Final revision of policy proposal: Monday, December 10, 25%

Comprehensive final exam: Monday, December 17, 30%

Ongoing participation: 5%

## **Other Remarks:**

The final exam will be given only at the time assigned by the Dean. In spite of the large size of the class, attendance is required and active participation is expected. I feel free to ask questions in class and to call upon students randomly. Not all of the material I present in class is covered in the assigned reading. If you must miss a class, please e-mail me a note. Group work is required for the research project and encouraged when studying for the exams -- but prohibited *during* exams!

## **Reading List:**

### **Introduction**

Traditional models of economic growth (9/4)

- “The Economics of Growth: Capital, Labor, and Technology” and “The Harrod-Domar Growth Model” in Todaro, pp. 115-120 and 80-82.

### **The “New” International Context: Trade and Factor Flows**

Contemporary Economic Integration (9/6)

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

Trade Theory (9/11-9/13)

- “Trade Theory and Development Experience,” Todaro, Ch. 12, pp.457-496.

Trade Policy (9/18)

- “The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration,” Todaro, Ch. 13, pp.497-540.

Capital Flows (9/20)

- “Foreign Finance, Investment and Aid: Controversies and Opportunities,” Todaro, Ch. 15, pp.577-618.

Unbalanced Trade and the Capital Account (9/25)

- “Balance of Payments, Third World Debt, and the Macroeconomic Stabilization Controversy,” Todaro, Ch. 14, pp. 541-576.

Global Financial Instability (9/27)

- Maurice Obstfeld, “The Global Capital Market: Benefactor or Menace?”, *Journal of Economic Perspectives* 12:4, Fall 1998, pp.9-30.

***First midterm: October 2***

### **The Institutional Context: The State and the Market**

The Commons, Externalities, Public Goods, and Market Failure (10/4)

- “Traditional Economic Models of the Environment,” Todaro, pp.420-434.

#### Information and Market Failure (10/9)

- *World Development Report 1998/99: Knowledge for Development*, “Information, Institutions, and Incentives,” pp.72-80.
- “The Role of Informal Finance for Small-Scale Enterprise,” Todaro, pp.664-666.

#### The State and the Macroeconomy (10/11)

- “Financial Reform and Fiscal Policy,” Todaro, Ch. 17, pp.656-664, 666-688.

#### The State and the Rules of the Game (10/16)

- James Anderson and Douglas Marcouiller, “Insecurity and the Pattern of Trade: An Empirical Investigation,” *Review of Economics and Statistics*, forthcoming.
- Douglas Marcouiller, “Hijacking, Hold-up, and International Trade,” working paper.

*Group meetings: October 18*

### **III. Poverty and Human Development**

#### Defining Poverty (10/23)

- World Bank, *World Development Report 2000/2001: Attacking Poverty*, “The Nature and Evolution of Poverty,” Ch. 1, and “Causes of Poverty and a Framework for Action,” Ch. 2, pp.15-41.

#### Poverty, Inequality, and Growth (10/25)

- “Growth, Poverty and Income Distribution,” Todaro, Ch. 5, pp.151-208.
- *World Development Report 2000/2001*, “Growth, Inequality and Poverty,” Ch. 3, pp.45-59.

#### Policy Options (10/30)

- *World Development Report 2000/2001*, “Making Markets Work Better for Poor People,” Ch. 4, “Expanding Poor People’s Assets and Tackling Inequalities,” Ch. 5, and “Harnessing Global Forces for Poor People,” Ch. 10, pp.61-96 and 179-188.

#### The State and Civil Society from the Perspective of the Poor (11/1)

- Deepa Narayan, et.al., “State Institutions,” Ch. 3, and “Civil Society Institutions,” Ch. 4, in *Voices of the Poor: Can Anyone Hear Us?* (Oxford University Press, 2000) pp.82-171.

***Second midterm: November 6***

***Presentation of policy proposals: November 8***

#### IV. Selected Issues

##### Insurance (11/13)

- *World Development Report 2000/2001*, “Helping Poor People Manage Risk,” Ch. 8, pp. 135-159.

##### Internal Migration (11/15)

- “Urbanization and Rural-Urban Migration: Theory and Policy,” Todaro, Ch. 8, pp.291-321.

##### Agriculture (11/20)

- “Agricultural Transformation and Rural Development,” Todaro, Ch. 10, pp.363-408.

##### Formal and Informal Labor Markets (11/27)

- “Unemployment: Issues, Dimensions, and Analyses,” Todaro, Ch. 7, pp.259-290.

##### Education (11/29)

- “Education and Development,” Todaro, Ch. 9, pp.326-362.

##### Demography (12/4)

- “Population Growth and Economic Development: Causes, Consequences, and Controversies,” Todaro, Ch. 6, pp.209-257.

##### Development Economics and Economic Development (12/6)

***Revised papers due by noon, Carney 139, December 10***

***Final exam, 9 a.m., December 17***