

EC 276

Political Economy of Developing Nations

Fall 99

T,Th 12:00
Carney 202

Professor: Douglas Marcouiller, S.J.
Assistant: Juan Marcelo Casas
Email: douglas.marcouiller@bc.edu
Office: Carney 139, 552-3685
Office Hours: M 1:15-2:45, Th 2:00-3:30

Short Description of the Course:

Globalization and institutional reform mark economic growth today. This course focuses first on the intensification of international trade and factor flows, then on the changing interaction of states and markets. Within this contemporary framework, the course considers many of the traditional themes of development economics: poverty, inequality, and growth; natural resources and the environment; agriculture and rural organization; migration and urbanization; formal and informal labor markets; human capital and technological innovation.

Motivation:

Why study the political economy of developing nations?

- The impact of international trade on economic growth has been one of the central concerns of development economics for many years. Insights gained over the years may help us to grasp the relation between contemporary globalization and national welfare.
- Rooted in the desire to alleviate poverty in a sustainable way, development economics has been marked by practicality, realism, and a sense of urgency. It has grappled with market failures and government failures, and its analysis of these failures can help guide policy design.
- Problems faced by policymakers in developing nations sparked debates which were critical for the subsequent development of economic theory. Young economists can discover in this course the intellectual roots of some of our contemporary ideas about endogenous growth, efficiency wages, adverse selection, and coordination failures.

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 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, which bears the copyright date 2000 (go figure!). The textbook will be supplemented by readings from the World Development Report 1998/99 and the Human Development Report 1999. All three are available for purchase in the Boston College Bookstore. Students' grasp of this material will be tested through two in-class midterm exams (**October 12** and **November 16**) and a comprehensive final (Saturday, **December 18**). Students will develop expertise in policy design through the preparation of a set of position papers, 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.

Position Papers:

I will assign each student to a country and a policy area. We will focus on six countries, Brazil, India, Indonesia, Mexico, Russia, and South Africa, and on six overlapping areas of concern:

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

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

Students will be encouraged to define their individual policy proposals in dialogue with others who study the same country or a similar problem in a different country. Ultimately, however, each student will be asked to prepare individually a policy position paper solving one narrowly defined problem within the broad policy area and country to which he or she has been assigned.

Detailed instructions will be given at each step of this process. Students will be assigned to countries and problem areas on **September 14**. Specific problems are to be defined by **September 28**. Position papers will be due on **November 4**. Students will then read and comment on one another's papers. Finally, each student will revise and resubmit his or her own individual proposal. Revised papers will be due on **December 7**. Conciseness is a virtue in policy proposals; I expect most to be about fifteen pages long.

Summary of Requirements and Grading:

First exam, **October 12**, 20%

Second exam, **November 16**, 20%

Cumulative final exam, **December 18**, 30%

Policy project, **September 28**, **November 4** and **December 7**, 25%

Participation, 5%

Note that the final will be given on the last day of the exam period, Saturday, **December 18**. The exam will be given only at this time, which has been set by the Dean's office. Travel plans must 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. Introduction to "Development Economics"

A. Factor Accumulation and Technological Change (9/2)

World Development Report 1998/99, "The Power and Reach of Knowledge" pp.16-25.

B. Growth and Human Development (9/7)

Human Development Report 1999, "Human Development in this Age of Globalization" pp.25-44, "What Do the Human Development Indices Reveal?" pp.127-133, and "Technical Note: Computing the Indices" pp.159-163.

C. Growth, Poverty and Inequality (9/9-9/14)

World Development Report 1998/99, pp.196-99 and pp. 235-37.

“Growth, Poverty, and Income Distribution,” Todaro, Chapter 5.

D. Preliminary Policy Perspectives (9/16)

Human Development Report 1999, “National Responses” pp.84-96 and
“Reinventing Global Governance” pp.97-114.

World Development Report 1998/99, “What Can International
Institutions Do?” pp.130-144 and “What Should Governments
Do?” pp.144-156.

II. The International Context: Trade and Finance

A. The Gains from Trade (9/21-9/23)

“Trade Theory and Development Experience,” Todaro, Chapter 12.

9/28. **Statement of Problem Due**

B. Trade Policy (9/28-9/30)

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

C. Financing Unbalanced Trade (10/5)

“Balance of Payments, Third World Debt, and the Macroeconomic
Stabilization Controversy,” Todaro, Chapter 14.

D. International Movements of Capital and Labor (10/7)

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

10/12. **First Midterm Exam**

III. The Institutional Context: The State and the Market

A. Externalities, Public Goods, Free Riders and Market Failure (10/14)

“Public Goods and Bads” and “Limitations of the Public-Good
Framework” Todaro, pp. 425-427.

B. Information and Market Failure (10/19)

World Development Report 1998/99, “Information, Institutions, and
Incentives,” pp.72-80.

C. The State and the Market (10/21-10/26)

World Development Report 1997, "The Evolving Role of the State," pp.19-28. On reserve at O'Neill, HC59.7 .W659.

"Planning, Markets, and the Role of the State," Todaro, Chapter 16.

D. The State and the Macroeconomic Framework (10/28-11/2)

"Financial Reform and Fiscal Policy," Todaro, Chapter 17.

World Development Report 1998/99, "Processing the Economy's Financial Information," pp. 81-98.

11/4. Position Papers Due

IV. Six Dimensions of the Development Challenge

A. The Environment (11/9)

"The Environment and Development," Todaro, Chapter 11.

World Development Report 1998/99, "Increasing Our Knowledge of the Environment," pp. 99-116.

B. Agriculture (11/11)

"Agricultural Transformation and Rural Development," Todaro, Chapter 10.

11/16. Second Midterm

C. Urbanization and Migration (11/18)

"Urbanization and Rural-Urban Migration: Theory and Policy," Todaro, Chapter 8.

D. Education (11/23)

"Education and Development," Todaro, Chapter 9.

E. Formal and Informal Urban Labor Markets (11/30)

"Unemployment: Issues, Dimensions, and Analyses," Todaro, Chapter 7.

F. Population (12/2)

"Population Growth and Economic Development: Causes, Consequences, and Controversies," Todaro, Chapter 6.

12/7. Revised Papers Due

G. Concluding Reflections: Economics and Economic Development (12/7)

12/18. Final Exam