

Boston College
Economics Department

EC 276 Political Economy of Developing Nations Fall, 1996

Professor: Douglas Marcouiller, S.J.
Office: Carney 139, 552-3685
Hours: M 8:30-10:30, W 3:00-4:00

Class Hour: MWF 11:00
Class Room: Fulton 235

Teaching Assistant: Umit Ozlale
Office: Carney 23
Hours: Th 3:30-5:00

Prerequisites:

This course applies standard tools of economic analysis to issues of interest to a wide variety of social scientists. Students must have mastered the material of EC131 and EC132 before taking this course, but more advanced skills will be developed in class. Students majoring in disciplines other than economics are welcome in the course, as are sophomores who may still be uncertain about whether or not to major in economics. In most cases, juniors and seniors majoring in economics should take EC375 instead of EC276. The differences between the two courses will be explained in detail during the first class session. The Cultural Diversity requirement can be fulfilled by taking either course.

Motivation:

Why study the *political economy* of *developing* nations? (a) In an increasingly integrated world, no single economy can be properly understood in isolation. This course uses models to capture some of the common elements which run through diverse experiences of international trade and economic growth. (b) In a world marked by life-threatening poverty, one cannot remain aloof from policy debates. The course provides a forum for economic analysis of the implications of market-oriented policies of stabilization and adjustment. (c) The theoretical and policy-oriented debates which we will explore have been critical to the methodological development of economics itself. Today's cutting-edge models of endogenous growth and technological change, external economies, coordination problems and the "big push," asymmetric information, adverse selection, moral hazard and credit rationing were all motivated, at least in part, by the problems faced by policy-makers in developing countries. (d) Economists are beginning to explore once again, with mathematical rigor, the impact of political institutions on economic outcomes.

Method:

We will use both “textbook” models and case studies as we work toward a grasp of development theories and policies. Students will be expected to complete the required reading before the corresponding class session, allowing the instructor to develop some of the more difficult or technical points in class. Beware! This is not a straightforward lecture course. Although the class is a large one, active participation in group work and in class discussions will be expected. The case studies associated with the course require a hefty amount of policy-oriented research and writing.

Exams:

Each student’s grasp of the required reading and of the material presented in class will be evaluated through a **mid-term on October 23** and a comprehensive **final on Wednesday, December 18, at 12:30 pm**. Note the date of the final. The exam will be given on the date set by the Dean’s office; travel plans must be made accordingly.

Case Studies:

I hope to have three Jesuits -- one from sub-Saharan Africa, one from the Middle East, and one from East Asia -- visit the class to describe the political economy of their own countries. In general, however, the students in the class will be responsible for the case studies. The class will divide into seven or eight working groups. Each group is to think of itself as a team of consultants to the government or the political opposition of one particular country. Working together, the members of the group will identify the major issues facing economic policy-makers in their country. Each member of the group will then take one of those problems...and solve it!

This work will be done step-by-step. The working groups will be formed on September 11, once the add/drop dust has settled. On **October 2**, each group will be asked to present a one-page statement of the problems it finds most urgent. On **October 16**, each student will be asked for a one-page individual statement of his or her problem and its solution. On **November 4**, each student is to present his or her completed paper. The papers will be returned with editorial comments on **November 11**. Revised final papers will be due on **November 22**. More detailed instructions will be given as the term progresses.

Resources:

The sixth edition of Michael Todaro’s textbook, Economic Development, which bears a copyright date of 1997, is already available. It will serve as the backbone of this course, and students are expected to purchase it. I also ask you to purchase a copy of the World Bank’s book, From Plan to Market: World Development Report 1996. I will use some of the material which is in the United Nations Development Programme’s book,

Human Development Report 1996; purchase of this book is recommended but not required. All these publications are available at the BC Bookstore.

Students are encouraged to make use of on-line resources in their research. Helpful information can be found at the web sites of the World Bank (www.worldbank.org) and the Inter-American Development Bank (www.iadb.org), for example, and newspapers from many countries are also on-line. The Bloomberg terminal at O'Neill Library offers access to financial information. Pearl Alberts, the Economics Bibliographer from O'Neill Library, will give a class on the use of these resources.

Summary of Requirements and Grading:

Midterm exam, October 23: 20%
Final exam, December 18: 30%
Group statement, October 2: 5%
Individual statement, October 16: 5%
First paper, November 4: 15%
Revised paper, November 22: 20%
Class participation: 5%

Outline of Assigned Reading:

I. An Overview of "Development Economics"

A. Why Study the Political Economy of Developing Nations? 9/4.

B. Economic Growth and Human Development: 9/6, 9/9.
"Trends in Growth and Human Development," Human Development Report 1996, Chapter 1, pp. 11-42. Recommended, not required.

C. Describing a Developing Economy: 9/11, 9/13.
"Diverse Structures and Common Characteristics of Developing Nations,"
Todaro, Chapter 2, pp. 26-68.
Working groups formed 9/11.

D. Schools of Thought about Development: 9/16.
"Theories of Development: A Comparative Analysis," Todaro, Chapter 3,
pp.69-103.

II. The International Context: Trade and Finance

A. The Gains from Trade: 9/18, 9/20, 9/23.
"Trade Theory and Development Experience," Todaro, Chapter 12, pp. 419-457.

B. Trade Policy: 9/25, 9/27.

"The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration," Todaro, Chapter 13, pp. 458-497.

C. Financing Unbalanced Trade: 9/30, 10/2.

"Balance of Payments, Third World Debt, and the Macroeconomic Stabilization Controversy," Todaro, Chapter 14, 498-532.

Group statement due 10/2.

D. International Movements of Capital and Labor: 10/4, 10/7.

"Foreign Finance, Investment and Aid: Controversies and Opportunities," Todaro, Chapter 15, pp. 533-570.

III. The Institutional Context: The State and the Market

A. The State and Sectoral Interventions: 10/9, 10/11.

"Planning, Markets, and the Role of the State," Todaro, Chapter 16, pp. 573-606.

"Towards Better and Slimmer Government," WDR96, Chapter 7, pp. 110-122.

B. The State and the Macroeconomic Framework: 10/16.

"Financial Reform and Fiscal Policy," Todaro, Chapter 17, pp. 607-645.

Individual statement due 10/16.

C. The Transition from Planning to Markets: 10/18, 10/21.

"The Challenge of Transition," WDR96, Part One, pp. 7-84.

Class will be held on October 18; only classes which start at noon or later have been canceled because of the President's inauguration.

D. Midterm 10/23

IV. Eight Dimensions of the Development Challenge

A. Interaction of Poverty and Growth: 10/25, 10/28, 10/30.

"Growth, Poverty, and Income Distribution," Todaro, Chapter 5, pp. 137-188.

B. The Environment: 11/1, 11/4.

"The Environment and Development," Todaro, Chapter 10, pp. 340-377.

C. Agriculture: 11/6, 11/8.

"Agricultural Transformation and Rural Development," Todaro, Chapter 8, pp. 263-294.

Paper due 11/4.

D. Urbanization and Migration: 11/11, 11/13.

"Urbanization and Rural-Urban Migration: Theory and Policy," Todaro, Chapter 8, pp. 263-294.

E. Formal and Informal Urban Labor Markets: 11/15, 11/18, 11/20.

"Unemployment: Issues, Dimensions, and Analyses," Todaro, Chapter 7, pp. 235-262.

"Translating Growth into Employment Opportunities," Chapter 4, Human Development Report 1996, pp. 86-105.

F. Education 11/22, 11/25, 12/2.

"Education and Development," Todaro, Chapter 11, pp. 378-416.

Revised paper due 11/22.

G. Population 12/4, 12/6.

"Population Growth and Economic Development," Todaro, Chapter 6, pp. 189-234.

H. Concluding Remarks: 12/9.