

BOSTON COLLEGE
ECONOMICS DEPARTMENT
EC 375: Economic Development

Douglas Marcouiller, S.J.
Office: Carney 139, 552-3685
Hours: W 2:00-4:30, F 11:00-12:00

Spring Semester, 1997
Classroom: Fulton 425
Class Time: MWF 10:00

Overview:

This course offers students a fairly sophisticated treatment of contemporary debates about development policy, touching on trade liberalization, privatization, deregulation, and macroeconomic stabilization. The course deals explicitly with technological change and endogenous growth, with asymmetric information and the structure of factor markets, and with property rights and the exploitation of natural resources. One theme of the course is the impact of different policies on the poor. A very different theme is the impact of “development economics” on contemporary economic methodology.

The reading list draws primarily on recently published work by prominent economists, among them Nancy Birdsall, Sebastian Edwards, Stanley Fisher, Karla Hoff, Anne Krueger, Paul Krugman, Michael Porter, Paul Romer, Joseph Stiglitz, Lawrence Summers and Janet Yellen. (These readings will be available in a coursepack at the B.C. Bookstore.) Where appropriate, we will also use Michael Todaro’s textbook, *Economic Development* (Sixth Edition, Addison-Wesley, 1997) to outline fundamental concepts.

The course is divided into four major sections. In order to ground subsequent theoretical work, we will begin with an overview of the tremendously provocative recent experience of Mexico. We will then step back to consider the fundamental goals of development policy, exploring in some detail a variety of models of economic growth. The third section of the course will describe the prevailing policy framework of liberalization, privatization, deregulation, and stabilization, paying special attention to the impact of these policies on the poor. In the fourth section of the course, we will apply contemporary microeconomic analysis to the markets for land, capital, and labor. We will also consider the relation between market-led growth and the environment.

Requirements:

This course is not suitable for the faint-hearted. Models of endogenous growth and imperfect information are sometimes complex. *EC 201, intermediate microeconomic theory, is a prerequisite for the course.* Students’ grasp of the readings and the theoretical material will be evaluated through an in-class mid-term on **February 21**, a comprehensive final on **May 6**, and participation in on-going class discussion.

Theoretical models take on new meaning when applied to the analysis of concrete cases. Building on the analytical framework presented in class, students will write position papers proposing specific policies to confront well-defined challenges. I expect most students to work on some aspect of the Mexican case, but other topics are also possible. The case studies will have three steps. On **February 7**, students will be asked for a one-page description of the specific problem which each one will address. The position paper will be due on **March 26**. A second, edited and revised version of the paper will be due on **April 23**. Detailed instructions about each step of the case study will be given at the appropriate time.

Grading:

Mid-term Exam, February 21, 20%

Final Exam, May 6, 35%

Policy Project: Proposal, February 7; First Version, March 26; Edited Version, April 23; 35%

On-going Class Participation, 10%

Lest We Lose Sight of the Obvious:

Come to class. Be on time. Ask questions. Don't plagiarize. Don't cheat. Enough said.

Reading List:

I. INTRODUCTION: OVERVIEW OF THE MEXICAN CASE

Nora Lustig and Jaime Ros, "Mexico," in The Rocky Road to Reform: Adjustment, Income Distribution, and Growth in the Developing World, edited by Lance Taylor (Cambridge: MIT Press, 1993), pp. 267-295.

José Córdoba, "Mexico," in The Political Economy of Policy Reform, edited by John Williamson (Washington, DC: Institute for International Economics, 1994), pp. 232-284. On reserve at O'Neill Library, call number HD87 .P645 1994.

Sebastian Edwards, "The Mexican Crisis of 1994 and the Future of the Latin American Reforms," in Crisis and Reform in Latin America: From Despair to Hope (New York: Oxford University Press for the World Bank, 1995), pp. 295-317.

Economic Commission for Latin America and the Caribbean, Economic Panorama of Latin America 1996 (Santiago, Chile: United Nations, 1996), pp. 55-63.

II. THE GOALS

Economic Growth

Michael Todaro, Economic Development, 6th edition (New York: Addison-Wesley, 1997), "Historic Growth and Contemporary Controversies," pp. 104-128, and "The Harrod-Domar Growth Model," pp. 72-74. On reserve at O'Neill Library, call number HD82 .T552 1997.

Paul M. Romer, "The Origins of Endogenous Growth," Journal of Economic Perspectives, 8:1, Winter, 1994, pp. 3-22.

Human Development

United Nations Development Programme, Human Development Report 1996 (New York: Oxford University Press for the UNDP, 1996), "Growth for Human Development?" pp. 1-10, and "Growth as a Means to Human Development," pp. 43-65. On reserve at O'Neill Library, call number HD72 .H85.

III. THE PREVAILING POLICY FRAMEWORK

The Four "...ations"

Lawrence Summers and Lant Pritchett, "The Structural Adjustment Debate," American Economic Review 83:2, May, 1993, pp. 383-389.

Joan Nelson, "Promoting Policy Reform: "The Twilight of Conditionality?" World Development 24:9, September, 1996, pp. 1551-1559.

Liberalization of Trade and Factor Flows

Background: Todaro, "Trade Theory and Development Experience," pp. 419-457, and "The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration," pp. 458-497.

Paul Krugman, "Protection in Developing Countries," in Policymaking in the Open Economy, edited by Rudiger Dornbusch (New York: Oxford University Press, 1993), pp. 127-148.

Eduardo Fernández-Arias and Peter Montiel, "The Surge of Capital Inflows to Developing Countries: An Analytical Overview," World Bank Economic Review 10:1, January, 1996, pp. 51-77.

Deregulation and Privatization

Anne O. Krueger, "Government Failures in Development," Journal of Economic Perspectives 4:3, Summer, 1990, pp. 9-23.

Josef Brada, "Privatization Is Transition--Or Is It?" Journal of Economic Perspectives 10:2, Spring, 1996, pp. 67-86.

Macroeconomic Stabilization

Background: Todaro, "Balance of Payments, Third World Debt, and the Macroeconomic Stabilization Controversy," pp. 498-532.

John Sheahan, "Inflation, External Deficits, and IMF Stabilization Programs," in Patterns of Development in Latin America (Princeton, Princeton University Press, 1987), pp. 99-129.

Stanley Fischer, Ratna Sahay, and Carlos Végh, "Stabilization and Growth in Transition Economies: The Early Experience," Journal of Economic Perspectives 10:2, Spring, 1996, pp. 45-66.

Poverty, Inequality and Growth

Todaro, "Growth, Poverty, and Income Distribution," pp. 131-177.

Nancy Birdsall, David Ross, and Richard Sabot, "Inequality and Growth Reconsidered: Lessons from East Asia," World Bank Economic Review 9:3, September, 1995, pp. 477-508.

IV. MICROECONOMIC ANALYSIS OF PARTICULAR MARKETS

Credit and Land Markets

David Bornstein, "The Barefoot Bank with Cheek," Atlantic Monthly, December 1995, pp. 40-47.

Todaro, "Subsistence Farming: Risk Aversion, Uncertainty, and Survival" and "Sharecropping and Interlocking Factor Markets," pp. 318-322.

Karla Hoff and Joseph Stiglitz, "Introduction: Imperfect Information and Rural Credit Markets--Puzzles and Policy Perspectives," World Bank Economic Review 4:3, 1990, pp. 235-250.

Timothy Besley, "Nonmarket Institutions for Credit and Risk Sharing in Low-Income Countries," Journal of Economic Perspectives 9:3, Summer, 1995, pp. 115-127.

Michael Carter and Bradford Barham, "Level Playing Fields and *Laissez Faire*: Postliberal Development Strategy in Inegalitarian Agrarian Economies," World Development 24:7, July, 1996, pp. 1133-1149.

Labor Markets

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

George Akerloff and Janet Yellen, "Introduction," in Efficiency Wage Models of the Labor Market (Cambridge: Cambridge University Press, 1986), pp. 1-9 only. Reserve call number HD4909 .E35 1986.

United Nations Development Programme, Human Development Report 1996, "Translating Growth into Employment Opportunities," pp. 86-105.

Growth, the Environment and the Market

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

Michael Porter and Class van der Linde, "Toward a New Conception of the Environment-Competitiveness Relationship," Journal of Economic Perspectives 9:4, Fall, 1995, pp. 97-118.

Karen Palmer, Wallace Oates, and Paul Portney, "Tightening Environmental Standards: The Benefit-Cost or No-Cost Paradigm?" Journal of Economic Perspectives 9:4, Fall, 1995, pp. 119-132.

V. CONCLUDING COMMENTS

"Neoliberalism in Latin America: A Letter of the Latin American Provincials of the Society of Jesus," November 14, 1996. [An official English translation of the Spanish original is in preparation.]