

Boston College
Department of Economics

EC 2273: Development Economics
Spring 2017

Time: MW 3:00 – 4:15pm

Class Location: O’Neill 253

Professor Anant Nyshadham

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Office Hours: MW 12-1pm

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Course Website: www.anantnyshadham.com/teaching

Development economics

This course considers what we know about developing countries and the poor, and applies economic theory to help us understand the constraints of poverty. We will describe the economies of less developed countries and the lives of the poor, focusing on changes in poverty, inequality, demography, and health. We will consider theories and evidence for why some countries are rich and others poor. We will examine how labor, and credit markets function in poor countries and communities, and the consequences for health, education, and child labor. Since the international community plays an important role in many developing countries, we will discuss aid and the international institutions.

Prerequisites: Micro principals and Macro principals and Statistics; theory courses will be useful, but not required.

Course Schedule

Wednesday, January 18

Monday, January 23

Wednesday, January 25

Monday, January 30

Wednesday, February 1

Monday, February 6 PS 1 Due

Wednesday, February 8

Monday, February 13

Wednesday, February 15

Monday, February 20

Wednesday, February 22 PS 2 Due

Monday, February 27

Wednesday, March 1

Monday, March 6 No Class Spring Break

Wednesday, March 8 No Class Spring Break

Monday, March 13

Wednesday, March 15 PS 3 Due, Review for Midterm

Monday, March 20 In-class Midterm

Wednesday, March 22

Monday, March 27

Wednesday, March 29

Monday, April 3

Wednesday, April 5 PS 4 Due

Monday, April 10

Wednesday, April 12

Monday, April 17 No Class Easter Weekend

Wednesday, April 19 PS 5 Due

Monday, April 24

Wednesday, April 26

Monday, May 1

Wednesday, May 3 PS 6 Due, Review for Final Exam, last day of class

Wednesday, May 10 Final Exam 12:30pm

Texts

Todaro, Michael and Stephen Smith. 2012. *Economic Development*. Boston: Pearson.

Easterly, William. 2001. *The Elusive Quest for Growth*. Cambridge, MA: MIT Press.

The Easterly book is an account of what has worked, and what has not, in growth and development in the past 50 years. Like all readings in the course, it must be evaluated critically — other readings will disagree with it, and you are welcome to as well. Almost all of the chapters are assigned, although not in order. The other chapters are interesting as well.

Under each topic I have marked required readings. Readings from sources other than Todaro and Smith or Easterly are linked on the course website on Blackboard Vista. Some of the readings come from economics journal articles, and may be difficult to understand. I do not expect you to understand everything in these articles, but I do expect you to have looked at them, and understood the parts we went over in class. Learning how to read original research, which may use techniques and terms with which you are not familiar, and get what you can out of it, is an important part of a tertiary education.

For some topics I also give suggestions for further reading. **These are not required nor expected**, but allow you to expand on a topic if you find it interesting.

Course Requirements and Grades

The grading for this course consists of your best grades on five out of the six problem sets (25%), a midterm (35%) and a non-cumulative final (40%).

Problem Sets: There are six problem sets of which I will count only the top five towards your final grade (including any problem sets not turned in so you may skip one problem set without a penalty). Some of the exercises may involve obtaining data and calculations involving a spreadsheet. Sometimes these problems can be time consuming if you are not used to using data and spreadsheets, so leave yourself time. Obtaining data from official sources and using it to reach conclusions should be part of the toolkit of any social scientist.

Problem sets are due in class on the days listed in the course schedule above. You should mark them clearly with your name, the class, and the problem set number. They may be turned in early to my box in the economics department. I will post problem sets on Blackboard Vista under the Assignments section.

The problem sets will be graded on a simple ✓+/✓/✓- scale. Problem sets turned in on time and done completely will get a ✓, exceptional problem sets receive a ✓+, problem sets with significant problems or incomplete problems sets receive a ✓-. I will give some credit for complete but late problem sets.

You may discuss problem sets and do them together. Everyone must turn in a separate problem set. Exams will be similar to problem sets, so it is useful to fully understand the problem sets. Problem sets cannot be submitted for a regrade, but I will drop your lowest score.

Examinations: The midterm will take place in class, and the final during the scheduled exam period. Both are closed book. The dates for both are not flexible. If you have a documented disability which will require special accommodation, or if an athletic or other event will cause you to miss the midterm, you must let me know at least a week beforehand. I am willing to work with you beforehand, but there is not much I can do after a deadline has passed. I will deal with medical and personal emergencies on a case by case basis, but I will likely require a note from the appropriate dean.

Course Outline and Reading List

1. Introduction to development economics (~2 lectures)

The nature of development. What it is to be developed. The role of values. The Millennium Development Goals. What does the world look like now? What did it look like 200 years ago? How did we get here? Development as history.

Readings:

Todaro and Smith chapters 1-2.

Easterly chapter 1.

Lucas, Robert E., Jr. "The Industrial Revolution: Past and Future." *Banking and Policy Issue Magazine, 2003 Annual Report Issue*. Federal Reserve Bank of Minneapolis. May 2004.

http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3333

Possible further reading: Discussions of Sen's approach to development either in a popular approach: Amartya Sen, *Development as Freedom*, Knopf, New York, 1999; or a more technical version: Amartya Sen, "The Concept of Development," in Chenery and Srinivasan, eds., *Handbook of Development Economics*, Vol. 1, Elsevier Science Publishers, 1988.

2. Population growth and development (~2 lectures)

High fertility. The demographic transition. The Malthusian model. Has population growth harmed economic growth? Why has some economic growth not resulted in population growth? The demographic transition.

Readings:

Todaro and Smith, chapter 6.

Easterly chapter 5.

Possible further reading: *The Ultimate Resource 2* by Julian Simon argues that human ingenuity is the "ultimate resource." Paul Ehrlich has been arguing for years (see *The Population Bomb* 1968) that overpopulation will bring doom to us all. Will he finally be right, as he argues in *One With Nineveh: Politics, Consumption, and the Human Future* (2005) and as Jared Diamond suggests in *Collapse: How Societies Choose to Fail or Succeed* (2005)?

3. Economic Growth (~3 lectures)

Stage theory. Harrod-Domar Model. Two-sector models. Solow Growth Model.

Readings:

Todaro and Smith, chapters 3, appendices 3.1 and 3.2.

Easterly 2, 3.

4. Growth accounting, convergence and empirical evidence (~2 lectures)

Convergence or divergence? Growth accounting. How well does the Solow model do? Inconsistent evidence. Can we make it better?

Readings: These readings are hard. We will go over substantial portions of them in class as well.

Mankiw, N. Gregory, David Romer, and David N. Weil. 1992. "A Contribution to the Empirics of Economic Growth." *The Quarterly Journal of Economics*, Vol. 107, No. 2, pp. 407-437.

<http://www.jstor.org/stable/2118477>

Easterly, William and Ross Levine. 2001. "What have we learned from a decade of empirical research on growth? It's Not Factor Accumulation: Stylized Facts and Growth Models." *World Bank Economic Review*, 15, pp. 177 - 219.

Possible further reading: Pritchett, Lant. 1997. "Divergence, Big Time," *Journal of Economic Perspectives*.

5. New Growth Theories and Coordination Failures (~2 lectures)

A brief introduction to new growth theory. Coordination failures and development

Readings:

Todaro and Smith, appendix 3.3 and chapter 4 (except 4.7).

Easterly 8 and 9.

6. Institutions and Long-Run Development (~2 lectures)

Why did Europe conquer the rest of the world? Are institutions the long-run driver of growth? What policies seem to harm growth?

Readings:

Landes, David S. 2006. "Why Europe and the West? Why not China?" *Journal of Economic Perspectives*, Vol. 20, No. 2, pp. 3-22.

<https://www.aeaweb.org/articles?id=10.1257/jep.20.2.3>

Easterly chapter 11 and 13.

Pages 1-37 (through section 5.4) of: Acemoglu, Johnson, and Robinson. 2004.

"Institutions as the Fundamental Cause of Long-Run Growth." NBER working paper 10481.

<http://www.nber.org/papers/w10481.pdf>

Possible further reading: David Landes' book *The Wealth and Poverty of Nations* examines the history of why some countries have done so well and other have not in the past 200 years. An even longer term perspective is given by *Guns, Germs and Steel* by Jared Diamond. Kenneth Pomeranz's book *The Great Divergence* is a fairly dense, but very interesting, account suggesting that things are more complicated than others seem to insist. (Pomeranz, Kenneth. *The Great Divergence*. Princeton: Princeton University Press: 2000.)

7. Corruption (~1 lecture)

Institutions are made up of people, some of whom may be corrupt. Does it matter?

Readings:

Easterly chapter 12.

Read from pages 1320-1330 in: Bardhan, Pranab. "Corruption in developing countries: a review of issues." *Journal of Economic Literature*, Vol. 35, No. 3 (Sep., 1997), pp. 1320-1346. <http://www.jstor.org/stable/2729979>

8. Poverty and Inequality (~3 lectures)

Measures of inequality. What are we measuring (or mismeasuring) and how do we measure it? Poverty: a different look at the distribution. How many poor are there? Are there better measures of the bottom of the distribution? Inequality and growth. The Kuznets curve.

Readings:

Todaro and Smith chapter 5.

Sections 1 and 2 (pages 1- 9) of: Chen, Shaohua and Martin Ravallion. 2008. "The Developing World is Poorer than We Thought, But No Less Successful in the Fight Against Poverty" World Bank Policy Research Working Paper 4703. <http://ssrn.com/abstract=1259575>

Possible further readings on poverty and inequality: Chapter 3 from: Deaton, Angus. 1997. *The Analysis of Household Surveys*. Baltimore: Johns Hopkins Press.

9. The economic lives of the poor (1 lecture)

What do the poor do with their money?

Readings:

Banerjee, Abhijit V. and Esther Duflo. 2007. "The Economic Lives of the Poor." *Journal of Economic Perspectives*. Vol. 1, no. 27, pp. 141-167. <http://econ-www.mit.edu/files/530>

Possible further reading: *Portfolios of the Poor: How the World's Poor Live on \$2 a Day* by Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven provides an interesting glimpse at how the poor manage their money in the short term.

10. Education and child labor (~2 lectures)

Some see education as the best way to help the poor. But what if there are no jobs? How does child labor affect education?

Readings:

Todaro and Smith chapter 8 (also for the next section on health and nutrition).

Easterly chapter 4.

Case, Anne. "The Primacy of Education." *Understanding Poverty*. Oxford University Press: 2005, Chapter 18.

http://www.princeton.edu/rpds/papers/pdfs/case_primacy_education.pdf

11. Health, Nutrition and Labor (~2 lectures)

What do we know about global health? Does it affect growth? Is health a poverty trap? How have changes in nutrition contributed to growth?

Readings:

Todaro and Smith chapter 8.

Read sections I and II of: Pritchett, Lant and Lawrence H. Summers. "Wealthier is Healthier." *The Journal of Human Resources*, Vol. 31, No. 4 (Autumn, 1996), pp. 841-868.

<http://www.jstor.org/stable/146149>

Robert Fogel, "Economic Growth, Population Theory, and Physiology: The Bearing of Long-term Processes on the Making of Economic Policy," *American Economic Review*, 84(3), June 1994, pp. 369-395.

<http://www.jstor.org/stable/pdfplus/2118058.pdf>

12. Credit Markets (~3 lectures)

Credit markets and market failures. How microfinance works. Will microfinance change everything? A problem with credit—the long term.

Readings:

Sections 14.1-14.3 in Debraj Ray, *Development Economics*. Princeton: Princeton University Press, 1998.

Section 1 ROSCAs (pages xxii-xxvii) in Rutherford, Stuart. *The Poor and their Money*. University of Manchester Institute for Development Policy and Management, 1999.

Morduch, Jonathan and Beatriz Armendariz. 2004. "Microfinance: Where do we stand?" In: *Financial Development and Economic Growth: Explaining the Links*. Charles Goodhart, ed. Basingstoke, Hampshire, UK: Palgrave Macmillan.

http://www.nyu.edu/projects/morduch/documents/microfinance/Microfinance_Where_Do_We.pdf

Possible further reading: *The Economics of Microfinance* by Beatriz Armendariz and Jonathon Morduch gives an overview of the ins and outs of microfinance.

13. Aid (~2 lectures, time permitting)

Does aid work? The resource curse and Dutch disease.

Readings:

Easterly chapter 6 and 7 (and chapter 2 which you have already read)

Todaro and Smith chapter 14, only pages 728-738 "Foreign Aid".

Kristof, Nicholas D. "Aid: Can It Work?" *The New York Review of Books*, 53(15)
October 5, 2006.

<http://www.nybooks.com/articles/2006/10/05/aid-can-it-work/>

Sachs, JD and McArthur, JW. 2005. "The Millennium Project: a plan for meeting the Millennium Development Goals." *The Lancet*, Volume 365, Issue 9456, 22 January 2005, pp. 347-353.

<http://image.thelancet.com/extras/04art12121web.pdf>

Possible further Reading: The Kristof article is partly a review of Jeffrey Sachs' book *The End of Poverty: Economic Possibilities for Our Time* (2005, Penguin Press: New York). Easterly has reviewed this book, and Sachs has written a review of *The White Man's Burden*, Easterly's most recent book. Entertaining reading!

14. Urbanization and Migration (~2 lectures, time permitting)

The growth of urban areas. Why do people move? Two sector models. Harris-Todaro model.

Readings:

Todaro and Smith chapter 7.