

Economics 484: The Economics of Growth

Prof. Berhanu Abegaz

Fall 2016

Classroom: Tyler 133

M, W, F: 11:00-11:50 AM

Office: Tyler 317-A

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## A. OBJECTIVES AND REQUIREMENTS

Prior to 1800, there was little difference in average income across continents—that is, leaving aside exceptional islands of affluence in the vast ocean of mass poverty. Since then, the global average living standard has increased twenty-fold. Thanks to the industrial revolution and the Great Divergence it has induced, we live today in a world of historically unprecedented prosperity along with stark inequalities between rich and poor—*within* countries as well as *among* countries. Of the global GDP of some US\$100 trillion in ppp terms, half goes to the 1 billion lucky residents of North America, Western Europe and Japan. While poverty is falling and the lower-middle class is growing the global South, the traditional middle class is stagnating in the West.

Economics courses tend to focus on static efficiency although the mostly one-off gains from eliminating static inefficiencies are not nearly as big as eliminating dynamic inefficiencies. There is much more to be gained from rapid, sustained and broadly-shared growth. The biggest unanswered question in Economics still remains, “Why are we so rich, and they remain so poor?” Just as importantly, “Why do some leading regions surge ahead, others catch up with leaders, while still others fail to do so for decades on?”

Growth is a complex process involving economics, politics, and even culture and geography. One intuitive answer pursued in most of the models we will study is that the growth of output and the distribution of the gains are determined by an economy’s supply-side capacity—human capabilities, resource endowments, leadership, and institutional quality. But, as we know from the Great Depression of the 1930s and the great moderation of the past two decades, the demand side (public, private, and net exports) matters, too. It is all about demand and supply, but with a long planning horizon and the inevitable high risk that comes with systemic uncertainty.

This is an advanced undergraduate course in macroeconomic theory which explores the drives of long-term economic growth—an area which has seen exciting research in the past thirty years. I will keep the technical aspects of the models to the minimum (basic knowledge of calculus, basic algebra, and elementary statistics will do—see Appendix A of JV for a refresher), but much of the material you will read is dense. After the lecture and the discussion sections, students will have an opportunity to do independent research on a policy issue of your choice.

### Grading

Course grade is determined as follows. There will be two in-class tests (40%) and three homework assignments (30%). Because the pace can vary, expect a one-week notice for test dates. Class presentations and attendance count for 5%, and the policy research note makes up the remaining 25%. Guidelines for the research paper will be provided. Economics 303 and 304 are pre-requisites. Consistent class attendance is the most important predictor of course grade. ***No electronic devices (laptops, cellphones, etc.) are allowed during lecture hours.***

### Textbooks

There are three required books (available for purchase at the Bookstore or from Amazon) and a number of articles or chapters which are available from the course’s Blackboard site. Homework assignments and lecture slides are also available from Bb. This is a time-demanding course; so, do not fall behind.

1. Charles Jones and Dietrich Vollrath, *Introduction to Economic Growth*, W. W. Norton, 2013. [JV]
2. Robert Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War*, Princeton University Press, 2016. [RG]
3. François Bourguignon, *The Globalization of Inequality*, Princeton University Press, 2015. [FB]

## B. SYLLABUS, ASSIGNMENTS, AND READINGS

### I. The Stylized Facts, Big Questions, and Small Answers

*Theories of growth typically identify puzzling stylized facts and offer empirically testable explanations for them. We will study three classes of growth models: Keynesian, Neoclassical, and Endogenous. We will begin with “accumulation-driven” growth with episodic (exogenous) technological progress and proceed to examine “productivity-driven” growth with endogenous technological progress.*

JV (2013), chapter 1.

FB (2015), Introduction and chapter 1: 1-46.

Abegaz (2016), “Growth and Structural Transformation,” in *Industrializing Africa*, chapter 2.

### II. The Harrod-Domar Model of Exogenous Growth [Keynesian]

Daron Acemoglu (2009), *Modern Economic Growth* (2009), chapter 1 and Epilogue: 3-25, 861-74.

→ *Homework #1 about here*

### III. The Solow Model of Exogenous Growth [Neoclassical]

JV (2013):

- The Solow Model, chapter 2.1
- Technology and the Solow Model, chapter 2.2
- Empirical Applications, chapter 3.1-3.3

Mankiw, Romer, and Weil (1992), “A Contribution to the Empirics of Economic Growth,” *Quarterly Journal of Economics*, 107: 407-437.

→ *Homework #2 about here*

### IV. The Economics of Ideas, Institutions, and Endogenous Growth

JV (2013):

- Endogenous growth theory, 4.1-4.5
- The AK model, 9.1-9.5
- The Romer Model, 5.1-5.2
- The Schumpeterian Model, 5.3-5.6
- Uneven Growth, 11.1-11.4

Rodrik, et al. (2004), “Institutions Rule,” *Journal of Economic Growth*, 9(2): 131-65.

→ *Homework 3 about here*

**\*\* Test #1 about here \*\***

## V. Two Canonical Case Studies: China vs. USA

### 5.1. *Models of Growth and Development*

JV (2013), chapter 6.

RG (2016), start reading early but finish the whole book by this point.

Huang, Yasheng (2012), "How Did China Take Off?" *Journal of Economic Perspectives*, 26(4): 147-70.

### 5.2. *Are there General Laws Growth?*

Picketty and Saez (2014), "Inequality in the Long run," *Science*, May.

Acemoglu and Robinson (2015), "The Rise and Decline of General Laws of Capitalism," *Journal of Economic Perspectives*, 29 (1): 3-28.

## VI. Looking Beyond Aggregate Growth Models

### 6.2. *The New Globalization: Finance and Trade*

F. Mishkin (2007), "Is Financial Globalization Beneficial?" *Journal of Money, Credit & Banking*, March.

R. Baldwin (2011), "Trade and Industrialization after Globalization's 2nd Unbundling: How Building and Joining a Supply Chain are Different and Why It Matters," in Feenstra and Taylor, eds.

### 6.3. *The New Globalization: Inequality*

FB (2015), rest of the book.

**\*\* Test #2 about here \*\***

## VII. Framing Growth Strategy & Policy

Dani Rodrik (2010), "Diagnostics before Prescription," *J. of Economic Perspectives*, Summer: 33-44.

### C. POLICY RESEARCH AND PRESENTATIONS

- Visit the EconLit database to compile a bibliography of articles and books on your research topic.
- Visit the major websites and download free data: country websites, and int'l organizations: WB, OECD, UN, IMF, PWT, Gronigen, WIDER, Maddison, etc.
- Follow the guidelines provided.

NB: You are required to have your topic approved by me before you embark on your research.

⇒ ***Policy Research Paper***

❖ Highly recommended:

Angus Deaton, *The Great Escape*, Princeton, 2013.

Daron Acemoglu and James Robinson, *Why Nations Fail*, Crown, 2012.

Michael Spence, *The Next Convergence: The Future of Economic Growth in a Multispeed World*, Piccador, 2012.

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