



ECON 483-01:
MACROECONOMICS OF DEVELOPMENT

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Office hours: TTR 2:00-4:30 pm; and by appointment

Fall 2018

MW: 3:30-4:50pm

Morton Hall 203

Course Description

While the developed world has gone through profound economic and demographic transformations over the last two centuries, these processes have not yet fully materialized in the developing world. This difference has important implications for the growing divergence in income and living standards between developed and developing countries. Over the last four decades, the developing world also exhibited greater heterogeneity in economic performance whereby some countries have been recognized as Emerging Economies or Newly Industrialized Countries (NICs) while others remain as Least Developed Countries (LDCs). The overarching questions that this course aims to address are thus: What are the underlying forces that drive cross-country differences in economic growth and development? What policy options can developing countries follow in order to catch up with advanced countries in a sustainable manner?

Although development economics emerged as a sub-discipline of economics only in the 1950s, it has since made important contributions by providing theoretical and empirical approaches to analyzing structural transformation, economic inequality, and the nature and dynamics of mass poverty. The scale of the poverty problem around the world is rather daunting: almost half of the 6.8 billion people on earth today live on less than \$2.50 a day per capita. Another 2 billion earn in the \$2.50-\$10.00 range. This leaves us with fewer than 1.5 billion “rich” people (in North America, Western Europe and Northeast Asia) claiming some three-fourths of the \$50 trillion Gross World Product (GWP). Given the centrality of poverty in the development literature, the course begins with concepts poverty and vulnerability, and measurements thereof. Measurement is very important not only to understand the trajectory of poverty but also to objectively assess the effectiveness of policies and poverty reduction programs, i.e., to determine whether government interventions are pro-poor or not. While there are important differences among development economists on how best to reduce and ultimately eradicating absolute poverty, there is broad consensus about the need for fundamental changes in the institutions and economic structure of developing countries. The course thus gives attention to the dynamics and significance of institutions and economic structure. Because of the multi-dimensionality of poverty and the various entry points for government policy, the course provides a survey, as opposed to a comprehensive coverage, of selected topics primarily at the macro and meso levels while also touching upon some issues at the microeconomic level.

The macroeconomic perspective relies on alternative theories of economic growth and development in which the national economy is the unit of analysis. This will be followed by “meso-economic” analysis where sector specific issues such as industrialization and structural change are addressed. The last part of the course provides microeconomic perspectives on the behaviors of households and enterprises. The course uses alternative theoretical approaches, empirical studies and country specific experiences that would inform broader as well as context specific policy discussions. By the end of the course, students will fundamental knowledge and analytical skills to engage effectively in a range of academic and policy debates on economic development.

Requirements and Grading

Intermediate microeconomics is a requirement to enroll in this course. Since some of the readings contain technical materials, prior knowledge of statistics and/or econometrics will be an advantage but not a requirement. Basic skills on how to interpret and make sense of regression results, for instance, will be provided during class.

Students will take two midterm exams each accounting for 20% of the final grade, and a non-comprehensive final exam with 25% weight. The course assessment also includes a problem set of 10% weight, designed to allow students to implement quantitative methods discussed in class. While students are encouraged to work together with classmates on problem sets, each student should submit the assignment written in her/his own words. Hard copies of solutions to problems should be submitted in class on the due date that will be announced together with the relevant data set(s) and instructions. A group presentation assignment toward the end of the semester allows students to give a coherent presentation on selected development topics not covered during regular lecture sessions. Topics for the group presentation, suggested initial readings and instructions for the assignment will be provided in due course. This group assignment will have 18% weight in your final grade. See Table 1 for a summary of course assessment.

I expect active participation of students in this international and policy-oriented course. Class participation accounts for 7% your final grade. The college invites a number of outside speakers on a variety of topics closely related to the objectives of this course. In fact I am one of the coordinators of the International Development seminar series for this academic year which is cohosted by AidData and the departments of Economics and Government. I will announce these events regularly on the course Blackboard and you are encouraged to attend these events and write a short discussion on BB to boost your participation grade. I will also ask students to be discussants for a particular reading material. Participation also means asking and answering questions, providing comments, and sharing development related country experiences. Note that you are required to read the course materials before each lecture session, which is the best way to prepare yourself for productive class participation.

I allow three days of absences from class without a need for producing an official document explaining your absence. However you are not allowed to miss more than two consecutive lecture sessions. I also do not reschedule designated exam dates. If you miss a midterm exam, its weight will be reassigned to your other exams provided that you produce a written excuse from the relevant College office. Absence beyond three days needs written excuse from the relevant College authority and should be presented to me in advance except in case of emergencies.

Table 1: Your final course grade will be determined as follows:

<i>Assessment Type</i>	<i>Grade</i>	<i>Due Date</i>
Midterm Exam - I	20%	Oct 03
Midterm Exam - II	20%	Nov 07
Problems Set	10%	Tba
Group Presentation	18%	Dec 3 and 5
Class Participation	7%	
Final Exam	25%	Tba

Readings

By the very nature of the subject matter, this is a reading-intensive course. Some of the readings are in the following two books, which you can purchase online. The rest of the readings will be uploaded on **Blackboard**. A double asterisk indicates supplementary readings. The rest are all required readings.

Text books:

1. Banerjee, A., R. Benabou and D. Mookherjee (eds). 2006. *Understanding Poverty*, Oxford University Press.
2. David Weil. 2009. *Economic Growth*, 2nd Edition, Pearson Education, Inc.

Course Outline

Week of 08/27: Introduction – The Origins and Objectives of Development Economics.

Week of 09/03: Who are the Poor and the Vulnerable? Identifying and Measuring Poverty and Vulnerability.

“Measuring Poverty” in *Understanding Poverty*, pp 3-15

Week of 09/10: Is Economic Growth Pro-Poor?

Bourguignon, F. 2004. “The Poverty-Growth-Inequality Triangle,” World Bank Discussion Paper, presented at the Indian Council for Research in International Economic Relations, New Delhi, India.

Ravallion, M. and S. Chen. 2003. “Measuring pro-poor growth,” *Economics Letters* 78, 93–99

Deaton, A. 2005. “Measuring Poverty in a Growing World (or Measuring Growth in a Poor World),” *Review of Economics and Statistics* 87, 1, 1-19.

Week of 09/17: Proximate Drivers of Economic Growth: The role of Capital Formation and Productivity

Factor Accumulation

Economic Growth, Chapter 3, pp 47-76

Population and Economic Growth

Economic Growth, Chapter 4, pp 83-95

Week of 09/24: Proximate Drivers of Economic Growth: The role of Capital Formation and Productivity (Continued)

Productivity and Economic Growth

Economic Growth, Chapter 7, pp. 185-204

First Midterm Exam: Wednesday October 03

Week of 10/01: Deeper Drivers of Long-term Economic Growth

Geography and Growth

Sachs, J. 2001. "Tropical Underdevelopment," *NBER Working Paper* No. 8119.
Economic Growth, Chapter 15, pp. 439-470

Barriso, S., L. Bertinelli, and E. Strobl. 2010. "Trends in Rainfall and Economic Growth in Africa: A Neglected Cause of the African Tragedy," *Review of Economics and Statistics* 92,2, 350-366.

Institutions and Growth

Acemoglu, D., S. Johnson, and J. Robinson. 2005. Institutions as Fundamental Causes of Long-run Growth. In P. Aghion and S.N. Durlauf (Eds.), *Handbook of Economic Growth*, Vol. 1A, pp.385-472.

Engerman, S. and K. Sokoloff. "Colonialism, Inequality and Long-run paths of Development" in *Understanding Poverty*, pp 37-61

**Acemoglu, D., S. Johnson, and J. Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91,5, 1369-1401.

Fall Break: 10/13-10/16

Week of 10/15 and 10/22: Country Case Studies: Botswana and Ethiopia

Week of 10/29: The Role of Aid in Development

Assessing Aid Allocation

Easterly, W. and T. Pfutze. 2008. "Where does the Money Go? Best and Worst Practices in Foreign Aid," *Journal of Economic Perspectives* 22,2,29-52.

Alesina, A. and D. Dollar. 2000. "Who Gives Aid to Whom and Why?" *Journal of Economic Growth* 15, 1, 33-63

** Burnside, C. and D. Dollar.2000. "Aid, Policies and Growth," *American Economic Review* 90,4, 84-868.

The UN Program of Action for LDCs

Shiferaw, A. 2009. "Assessing the UN Program of Action for LDCs and Special Support Measures," Background Paper for the Committee for Development Policy, UN.

Week of 11/05: Understanding Structural Change and The Role of Industrial Policy

Housman, R., J. Hwang, and D. Rodrik. 2007. "What You Export Matters," *Journal of Economic Growth* 12,1, 1-25.

Aghion, P., M. Dewaripont, L. Du, A. Harrison, P. Legros. 2012. "Industrial Policy and Competition," NBER Working Paper 18048.

Rodrik, D. 2004. "Industrial Policy for the Twenty-First Century," *mimeo* Harvard University, JFK School of Government.

** Imbs, and R. Wacziarg. 2003. "Stages of Diversification," *American Economic Review* 93, 1, 63-86.

Second Midterm Exam: Wednesday November 07

Week of 11/12: Fertility, Mortality and Demographic Transition

Economic Growth, pp. 99-115

"Fertility in Developing Countries," in *Understanding Poverty*, pp.143-160

Week of 11/19: Child Labor and Human Capital

Chile Labor and Development

Edmonds, E. and N. Pavcnik. 2005. "Child Labor in the Global Economy," *Journal of Economic Perspectives* 19, 1, 199-220.

Education and Development

Bils, M. and P. Klenow. 2000. "Does Schooling Cause Growth?," *American Economic Review* 90,5,1160-1183

"The Primacy of Education" in *Understanding Poverty*, pp.269-284

**Basu, K. 1999, "Child Labor: Cause, Consequence and Cure with Remarks on International Labor Standards," *Journal of Economic Literature* 37, 1083-1119

** Kremer, M. 2004. "Randomized Evaluation of Education Programs in Developing Countries: Some Lessons," *American Economic Review* 93,2, 102-106.

Thanksgiving Break: Nov 21-25.

Week of 11/26: How Effective Are Microinsurance and Microfinance Institutions

Gine', X., R. Townsend, and J. Vicker. 2008. "Patterns of Rainfall Insurance Participation in Rural India," *World Bank Economic Review* 22,3, 539-566

Duflo, E., A. Banerje, R. Glennerster and C. Kinnan. 2013. "The Miracle of Microfinance? Evidence From a Randomized Evaluation," National Bureau of Economic Research, Working Paper No. 18590.

Ekman, B. 2004. "Community-based health insurance in low-income countries: a systematic review of the evidence," *Health Policy and Planning* 19, 5, 249-270.

Student Group Presentations: Dec 3 and 5

ADDITIONAL REFERENCES AND DATA SOURCES

References:

The New Palgrave Dictionary of Economics
Handbook of Development Economics, 5 volumes

Data Sources:

International Financial Statistics (IMF)
World Development Indicators (World Bank—now available free, online)
Global Development Finance (World Bank—now available free, online)
Geographic Distribution of Financial Flows (OECD)

Annual Research Reports:

The Economist (special surveys)
World Development Report (World Bank)
Industry and Development Report (UNIDO)
World Labour Report (ILO)
Human Development Report (UNDP)
World Economic Outlook (IMF)
Competitiveness Reports (World Economic Forum)
World Investment Report (UNCTAD)

Useful Web Sites:

Development Gateway:	http://governance.zunia.org/
WB Growth Research:	http://www.worldbank.org/research/growth/index.htm
WB Aid Effectiveness:	http://www.worldbank.org/research/aid/aidpub.htm
Center for Global Development:	http://www.cgdev.org/
Aid Watch:	http://aidwatchers.com/
WIDER:	http://www.wider.unu.edu/
Governance:	http://thekaufmannpost.net/

Regional Development Banks:

African Development Bank (AfDB):	www.afdb.org
Asian Development Bank (ADB):	www.adb.org
Inter-American Development Bank (IADB):	www.iadb.org
European Bank for Reconstruction and Development (EBRD):	www.ebrd.org