



ECON 483-01:
MACROECONOMICS OF DEVELOPMENT

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

Fall 2019

MW: 3:30-4:50pm

Tyler Hall 133

Course Description

While developed countries have undergone profound economic and demographic transformations over the last two centuries, these processes are still unfolding in the developing world. Such differences in economic and demographic structure are very crucial in understanding the process of economic development as they reflect as well as propagate the divergence in standards of living between developed and developing countries. Over the last four decades, the developing world has also experienced rising heterogeneity in economic performance such that some economies have achieved middle-income status while others remain low-income countries. The process of economic development is thus complex and multifaceted, and Development Economics provides the relevant theoretical and empirical frameworks to understand it.

Development economics emerged as a sub-discipline of economics in the 1950s with a primary objective of understanding and tackling global mass poverty. Development economists believe that effective poverty reduction requires not only economic growth, which refers to increasing the size of the economic pie, but also structural transformation, which implies adjusting the composition of output and exports, as well as direct interventions that target and benefit the poor. This course essentially addresses these essential aspects of poverty reduction in a selective yet balanced manner. The major themes to be addressed in this course are organized in three parts. Part I sets the stage by addressing two central questions: What is the best way to measure poverty? How do we assess the effectiveness of economic growth in reducing poverty? Students will be familiarized with conventional approaches to identifying the poor and measurements of poverty, the desirable properties of poverty measures and some of their shortcomings. This discussion is very important not only for understanding the drivers and trajectory of poverty but also for evaluating the effectiveness of policies and intervention in reducing poverty. Part II of the course tackles the question: Why are some countries poorer than others? The discussion here makes a distinction between “Proximate” and “Fundamental” determinants of long-run economic growth. In addition to discussing theoretical models, Part II uses country case studies to highlight the relative importance of growth factors in the real world. Part III delves deeper into major on-going debates on policies and strategies for poverty reduction and sustainable growth. Questions to be addressed in this part include: To what extent should poor countries follow an agriculture-first development strategy given that most poor people make a living in agriculture? How about strategies for economic diversification and export-oriented industrialization given the historical role of industrialization for economic prosperity? How critical is education in the development process and what level of education should developing country governments prioritize? What is the relative effectiveness of recent institutional innovations that directly target the poor – including cash transfer programs and, microfinance and microinsurance institutions – in reducing poverty and vulnerability? The course allows students to effectively engage in the academic and policy dialogs surrounding the above-

mentioned topics through relevant reading materials, lectures and classroom discussions.

Requirements and Grading

Intermediate microeconomics is a requirement to enroll in this course. Since some of the readings use quantitative research methods, 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 during the semester each accounting for 20% of the final grade, and a non-comprehensive final exam of 30% weight. The course assessment also includes a problems set with a 15% weight designed to enhance technical skills in poverty measurement. While students are encouraged to work together with classmates on the problems set, each student should submit the assignment written in her/his own words. Please submit hard copies of the assignment at the beginning of class on the due date which will be announced soon together with the relevant data and instructions. Students will also be assigned in groups of 4 or 5 students to conduct a panel discussion on selected development topics not covered by regular lecture sessions. Topics for the panel discussion, suggested initial readings and instructions for the assignment will be provided in due course. This group assignment will take place in the last week of the semester and carries a 15% weight. See Table 1 for a summary of course assessments.

I expect your active participation in this course by reading the assigned materials ahead of class, asking and answering questions, and sharing development related country experiences. I will also ask students to be discussants for specific reading materials on a given lecture topic. This would mean leading the class discussion through a deeper reflections and questions on the contents of the reading material. I also encourage students to attend seminars and lectures by invited speakers on development related topics. The International Development Seminar series, which is coordinated by AidData and the departments of Economics and Government, is particularly relevant in this case. I will announce these events regularly on the course Blackboard.

I allow up to three days of absences from class without having to provide official justification for absence. However, you are not allowed to miss more than two consecutive lecture sessions. This provision does not include exam dates, and I do not reschedule designated exam/assignment dates. If you miss a midterm exam, its weight can be reassigned to your other exams provided that you produce a written excuse from Student Affairs or other relevant offices. Absence beyond three days needs written excuse from SA and should be presented to me in advance except for 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 09
Midterm Exam - II	20%	Nov 18
Problems Set	15%	Tba
Panel Discussion	15%	Dec 3 and 5
Final Exam	30%	Tba

Readings

By the very nature of the subject matter, this is a reading-intensive course. Some of the readings are in the following book, 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.

Course Outline

Week of 08/28: Introduction

Part I: Measuring Poverty and the Growth Elasticity of Poverty

Week of 09/02: Measuring Poverty and Inequality

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

Foster, Greer and Thorbecke. 1984. “A Class of Decomposable Poverty Measures,” *Econometrica* 52, 761-766

**Foster, Greer and Thorbecke. 2010. “The Foster-Gree-Thorbecke (FGT) Poverty Measures: Twenty Five Years Later,” IIEP Working Paper 2010-14, Institute for International Economic Policy, George Washington University.

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

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

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.

Part II: Why Are Some Countries Poorer Than Others? A Cross-country Analysis

Week of 09/16: Proximate Drivers of Economic Growth: The role of Capital Formation and Productivity

David Weil. 2009. *Economic Growth*, 2nd Edition, Pearson Education, Inc
Chapters 3 and 4

Week of 09/23: Deeper Drivers of Long-run Economic Growth

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.

Weeks of 09/30: Cases Studies on Growth and Poverty Reduction: China and Ethiopia

Yao, Yang. 2014. "The Chinese Growth Miracle," *Handbook of Economic Growth* 2, 943-1031.

Shiferaw, A. 2016. "Building Productive Capacity in Ethiopia," Background Paper for the UN Committee on Development Policy (CDP)

First Midterm Exam: Wednesday October 09

Fall Break: October 12-15

Weeks of 10/14: Country Cases - Continued

Part III: Strategies for Growth and Poverty Reduction

Week of 10/21: Agriculture-first Growth Strategy

Christiaensen, L., L. Demery, and J. Kuhl. 2011. "The (evolving) role of agriculture in poverty reduction – an empirical perspective," *Journal of Development Economics* 96, 2, 239-254.

Janvry, A., and E. Sadoulet. 2009. "Agricultural Growth and Poverty Reduction: Additional Evidence," *World Bank Research Observer* doi: 10.1093/wbro/lkp015

Week of 10/28: Growth and Structural Change: Industrialization and Export Orientation

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

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.

Week of 11/04: Child Labor and Access to Education

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

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

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

Week of 11/11: Poverty Reduction Through Transfers, Microfinance and Microinsurance

“Transfers and Safety Nets in Poor Countries: Revisiting the Trade-offs and Policy Options” in *Understanding Poverty* pp. 203-229.

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.

Week of 11/18: Poverty Reduction Through Transfers, Microfinance and Microinsurance - Continued

Second Midterm Exam: Monday November 18

Week of 11/25: Wrapping Up Lecture Sessions

Thanksgiving Break: Nov 27-Dec 1.

Student Panel Discussion: Dec 2 and 4

