

ECON 484: The Economics of Growth

Prof. Berhanu Abegaz

Fall 2020
RF: Tyler 133

MWF: 12:00-12:50 AM
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DESCRIPTION, LEARNING OBJECTIVES AND REQUIREMENTS

There was little difference in average income across continents in the centuries before 1800—that is, leaving aside exceptional islands of affluence in the vast ocean of global poverty. Since then, a combination of technological progress and declining population growth have raised the global average living standard thirty-fold from \$500 (Liberia today) to \$15,000 (China today). Thanks to the industrial revolution and the Great Divergence it has induced, we live today in a world of historically unprecedented prosperity but also economic 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 abject poverty is falling, and a middling class is emerging in the global South, the traditional middle class in the global south has been experiencing stagnation.

This course is about the theoretical frameworks and tools in the study of growth as a long-term macroeconomic phenomenon. Much of the economics you study tends to focus on static efficiency although the mostly periodic one-off gains from eliminating such inefficiencies are not nearly as big as eliminating dynamic inefficiencies that inhibit rapid, sustained and broadly-shared growth. The biggest unanswered question in Economics thus 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? Why do leaders eventually stumble, and some followers surge ahead to become leaders? These questions about the drivers of economic growth and the determinants of its benefits among various groups in society are also among the most imponderable questions in economics.

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 ultimately about demand and supply involving risk calculations about long-term public and private investment.

The economics of growth has seen exciting research in the past thirty years. A lot of mathematics and econometrics is deployed in the literature to analyze the increasingly available economic data. I will keep the technical aspects of the models to the absolute minimum (knowledge of basic calculus, algebra and geometry, and elementary statistics will do—see Appendix A of JV for a refresher). The material is still dense; so, this is a hard course for those who are not willing or able to take the time to read closely and work out the problems sets as well as end-of-chapter exercises diligently. After the lecture and the discussion sections, students will have an opportunity to do independent research on a policy issue of your choice.

Grading

The course grade is determined as follows. There will be two in-class tests (40%) and four homework assignments (30%), one of which will be dropped (with the lowest score). Because the pace can vary, expect no more than a one-week notice for test dates. Class presentations and attendance count for 10%, and the policy research note (due on **November 19, 2020**) make up the remaining 20%. Guidelines for the research project note will be provided. The cutoff points for your final (letter) grade will be determined after all graded work have been submitted.

Attendance, Electronics, and Makeup Policy

Class attendance is mandatory. No makeups for missed homework assignments. Consistent class attendance is the most important predictor of the course grade in this tech-heavy course. Absolutely no electronic devices (laptops, cellphones, etc.) are allowed during lecture hours. The Honor Code will be fully enforced.

The WM Honor Code and Healthy Together Commitment

Although it is tempting to do it in an environment of remote teaching and learning, use of any unauthorized outside help when completing graded work will be deemed a violation of the College's Honor Code and carries serious consequences. You are expected to comply with the terms of the University's **Healthy Together Community Statement** (<https://www.wm.edu/sites/pathforward/health/index.php>).

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 which assumes that you have an operational knowledge of basic calculus and have the time to work out the mathematical models. Otherwise, I must tell you at the outset that this course is not for you.

1. Jones, Charles and Dietrich Vollrath, *Introduction to Economic Growth* (Third Edition), WW Norton, 2013. [JV]
2. Lindert, Peter and Jeffrey Williamson, *Unequal Gains: American Growth and Inequality since 1700*, Princeton University Press, 2016. [LW]
3. Pomeranz, Kenneth, *The Great Divergence: China, Europe, and the Making of the Modern World Economy*, Princeton University Press, 2001. [PK]

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.
Abegaz (2018), "Growth and Structural Transformation," in *Industrializing Africa*, ch. 1.

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

Daron Acemoglu (2009), *Modern Economic Growth* (2009), chapter 1 + Epilogue: 3-25, 861-74.
Abegaz (2020), *Pedagogical Notes on Exogenous Models of Growth* (section on HD Model).

→ **Homework #1(early-September)**

III. The Solow Model of Exogenous Growth [Neoclassical]

JV (2013):

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

Abegaz (2020), *Pedagogical Notes on Exogenous Models of Growth* (section on Solow Model).
Mankiw, Romer, and Weil (1992), "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, 107: 407-437.

→ **Homework #2 (end of September)**

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 (Lucas Model)
- The Romer Model, 5.1-5.2
- Uneven Growth, 11.

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

→ **Homework 3 (early October)**

**** Test #1 (mid-October) ****

V. Two Canonical Case Studies: China vs. USA

5.1. Models of Growth and Development

JV (2013), chapter 6.

LW, whole book;

R. Gordon (2016), *Rise and Fall of American Growth*, chapter 1.

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

5.2. Are there General Laws of Growth and Inequality?

PK, whole book.

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

Milanovic, *Global Inequality* (2016), chapter 1.

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

⇒ **Homework #4 (end of October)**

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**** Test #2 (early November) ****

VI. Looking Beyond Aggregate Growth Models

6.2. Financial Globalization and Growth

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

BB (2019): The whole book.

6.2. Framing Growth Strategy & Policy

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

ANALYTICAL PROJECT ON GROWTH FRAGILITY

- 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, Groningen, WIDER, Maddison, etc.
- Follow the guidelines provided.

⇒ **Project Note (November 18, 6 PM)**

I reserve the right to make minor adjustments to this syllabus.