



ECON 483-01:
MACROECONOMICS OF DEVELOPMENT

Instructor: Admasu Shiferaw

Office: Tyler Hall 263

Email: ashiferaw@wm.edu

T: 757-221-2369

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

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TTR: 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 not only reflect but also propagate the divergence in standards of living between developed and developing countries. Over the last four decades, the developing world has also experienced substantial heterogeneity in economic performance such that some countries have achieved middle-income status while others remain low-income countries. The process of economic development is 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 the primary objective of understanding and tackling global mass poverty. Development economists believe that effective poverty reduction requires three critical components: (i) economic growth, which refers to increasing the size of the economic pie; (ii) structural transformation, which refers to adjustments in the composition of output and exports; and (iii) direct interventions, by government and non-government organizations, that target and benefit the poor. This course addresses these essential aspects of poverty reduction in a selective yet balanced manner. The major themes to be addressed 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 aggregate poverty, the statistical properties of poverty measures and some of their shortcomings. This discussion is very important not only for understanding the correlates 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 different 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 work 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? How effective are recent institutional innovations that directly target the poor – including Conditional Cash Transfers (CCTs), Microfinance and Microinsurance – in reducing poverty and vulnerability? The course allows students to engage effectively in academic and policy dialogs surrounding

the above-mentioned topics through relevant reading materials, lectures, classroom discussions and group presentation assignment.

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 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 to conduct a panel discussion on selected development topics not covered under 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. This would mean leading the class discussion through deeper reflections and questions on the contents of the reading materials. 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%	March 05
Midterm Exam - II	20%	April 16
Problems Set	15%	Tba
Panel Discussion	15%	April 21 and 23
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

January 23rd: Introduction

Part I: Measuring Poverty and the Growth Elasticity of Poverty

Week of 01/27: 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 02/03: 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 02/10: 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 02/17: 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 02/24: 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: Thursday March 05

Spring Break: March 7-15

Weeks of 03/16: Country Cases - Continued

Part III: Strategies for Growth and Poverty Reduction

Week of 03/23: 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 03/30: 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 04/06: 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 04/13: 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.

Giné, 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.

Second Midterm Exam: Thursday April 16

Student Panel Discussion: April 21 and 23

Week of 04/27: Complete Discussion on Microfinance/Microinsurance and a Review Session

