

ECONOMICS 120
DEVELOPMENT ECONOMICS
GERALD MCINTYRE, PH.D.

UNIVERSITY OF CALIFORNIA, SANTA CRUZ
SUMMER SESSION 1
JUNE 20 – JULY 22, 2016

Dr. Gerald McIntyre

E-mail: gmcintyr@ucsc.edu

Lecture: Engineering 2 194: T&TH 1:00pm to 4:30pm

Office: Engineering 2, Room 423; Hours: T&TH: 4:30 – 5:30pm and by appointment.

Econ 120, Development Economics, introduces students to the study of the economic problems facing low and middle-income countries. We seek answers to two fundamental questions: To what degree can economic analysis explain why some nations are poor and others rich? To what extent can economic analysis suggest ways the poor countries of the world can develop? This course reviews alternative theories of economic development and examines a number of issues central to the lives of the more than 5 billion people who live in the developing world.

Course prerequisites: Econ 1, 2 and 113 are prerequisites for Econ 120.

Texts

Dwight H. Perkins, Steven Radelet, David L. Lindauer and Steven Block, *Economics of Development* 7th edition, W. W. Norton, 2012, (referred to as Perkins below).

William Easterly, *The Elusive Quest for Growth*, (referred to as Easterly below).

Other Resources

Economics 120 has a course website on eCommons where the syllabus, assignments, PowerPoint slideshows, and other information will be posted. Students should check eCommons daily.

Grading

Students are evaluated on problem sets and memos, a mid-term exam, a final exam on the last day of class, quizzes, two oral presentations, and class participation, with the following weights:

Problem Sets	15 points
Mid-term (July 5)	20 points
Final Exam (July 21)	35 points
Quizzes	5 points
Presentation 1 (July 7 and 12)	10 points
Presentation 2 (July 14 and 19)	15 points
Class participation	Priceless (as much as 1/3 a grade point from, say, B+ to A–)

Your letter grade will be assigned according to the following scale:

A	90-100 points
B	80-89 points
C	70-79 points
D	60-69 points
F	< 60 points

Summer Session Students with Disabilities

If you qualify for classroom accommodations because of a disability, please submit your Accommodation Authorization Letter from the Disability Resource Center (DRC) to me as soon as possible, preferably within the first week of the Summer Session. Contact DRC by phone at 831-459-2089 or by email at drc@ucsc.edu for more information.

Deadlines for Summer Session 1

Drop deadline is June 27; **Withdraw** deadline is July 8

Presentations

Presentation 1: on July 7th and 12th. Students, in randomly selected groups of 2 or 3 will give presentations on Alternative Models of Economic Development. Students should start researching this presentation by watching the appropriate video at Marginal Revolution University (<http://mruniversity.com/courses/development-economics-0> under “People References/Optional”) and their own research. These videos are only the starting point; you will have to do additional research beyond these videos. Each video provides references at the end to help you research the ideas of each of these thinkers. In addition, you may come to my office hours to discuss these thinkers with me. Teams have also been randomly assigned to a thinker on development (see below). In preparing these presentations students should: 1. Clearly and concisely present the thinker’s ideas; 2. Give examples of how these ideas operate in the world; 3. Present, when possible, the thinker’s model graphically or mathematically (for this consult their key paper or book); 4. Describe how the thinker’s ideas inform economic development; 5. Present a critique of the thinker’s ideas. These 5 points should be covered in 10 – 15 minutes, which is just 2 – 3 minutes for each point – a very quick pace.

1. Paul Krugman: Nobel Prize winner, specialization & trade, IRTS & clustering of economic activity.
2. Anne Krueger: explored and measured the cost of “rent seeking” behavior in poor countries.
3. Elinor Ostrom: political scientist, Nobel Prize winner; solutions to the tragedy of the commons.
4. Paul Romer: likely Nobel Prize winner, father of endogenous growth; my undergraduate Prof.
5. William Easterly: development gadfly; Jeff Sachs’ *bête noire*, World Bank fired him for writing our book.
6. Jeffrey Sachs: world’s most famous economist; knows Bono personally; shock therapist, MDG.
7. Robert Townsend: analyzes interaction between household decisions and community behavior.
8. Amartya Sen: the moral compass of development economics; “missing women” democracy & famine.
9. Paul Collier: provocative economist; conflict and resource traps, landlocked w/ bad neighbors, bad gov’t.
10. Dani Rodrik: creative development economist; state and market are complements; against one size fits all.
11. Daron Acemoglu: stresses the importance of political economy and institutions; author *Why Nations Fail*.
12. Hernando de Soto: studies informal economy & property rights of poor; length of time to start a firm, was the target of assassination attempts by the Shining Path in Peru.

Presentation 2: on July 14th and 19th. Students, in the same groups will give presentations based on a Poverty Reduction Strategy Paper (PRSP) written by the World Bank and the IMF. In this presentation groups select a country (with my prior approval) and analyze its PRSP over the last five years (back to 2009). Go to <http://www.imf.org/external/np/prsp/prsp.aspx>, where the IMF provides links to both PRSP and PRSP-progress reports for many countries. The PRSP outlines suggested policy proposals; these are written every three years or so. The (roughly) annual PRSP-progress reports assess the progress made by the country on the suggested policies from the most recent PRSP. You should use both the PRSP and the PRSP-progress reports in your presentation and paper. A list of appropriate countries will be given in class. Presentations are 15 minutes (i.e. 5 minutes per student) and should cover, at a minimum, the following topics:

1. the relevant country history and current macroeconomic time series data,
2. the current development problems and issues facing the country,
3. previous policies suggested to the country and the outcomes of these policies
4. current suggested policies, and their rationale, from the PRSP,
5. how the current suggested policies fit in with, or contradict, the concepts of economic development presented in this course,
6. whether these policies have been implemented (and if not, why not) and an assessment of how successful these have been (given in the PRSP-progress reports).

For both presentations, teams should plan carefully and rehearse their presentation to maximize impact and minimize distractions. Winston Churchill, the greatest English language orator of the 20th century, said he practiced 60 minutes for every one minute of a speech. This 60-to-1 ratio, means for a 10-minute speech Churchill practiced 600 minutes or 10 hours. When I give a speech I have found this ratio to be an accurate measure of my preparation. I strongly suggest that groups use a PowerPoint slideshow to communicate your points, data and analysis. Note: too many graphics, images, and transitions distract from your argument and disrupt the flow of the presentation.

Slides should be organized in the following way (figure at least 3 minutes per slide after the second slide):

First slide: title of presentation with names of presenters; keep this simple.

Second slide: outline of presentation (presenters' names next to their topic).

Slides showing the key ideas, problems and issues.

Slides with your research and analysis including graphs, mathematics and data.

Concluding Slide: what your audience should takeaway from the presentation.

Reading List (Tentative)

I reserve the right to make changes to this Reading List. All changes will be announced in class and posted on eCommons. **Required readings in bold.** We will start with Topic I. and move sequentially through the topics as time permits.

- I. What is Economic Development?

Perkins, Chp. 1, Patterns of Development

Perkins, Chp. 2, Measuring Economic Growth and Development

“New Directions in Development Thinking,” by the World Bank
<https://openknowledge.worldbank.org/handle/10986/5982> pp. 14 – 30.

“The Human Development Paradigm,” by Mahbub ul Haq
http://books.google.com/books/about/Reflections_on_Human_Development.html?id=Cwyv2OtYdGQC&redir_esc=y

“Perspectives on the Economic Development of India and China,” Amartya Sen.

“The Economic Lives of the Poor,” by Banerjee and Duflo: *Journal of Economic Perspectives*, v.21, n. 1, winter 2007, pp. 141–167
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.21.1.141>

W. Easterly “The New Tyranny: How development experts have empowered dictators and helped to trap millions and millions of people in poverty,” March 10, 2014, *Foreign Policy*, at http://www.foreignpolicy.com/articles/2014/03/10/the_new_tyranny

W. Easterly “Guest: The flaw in Bill Gates’ approach to ending global poverty,” *Seattle Times*, 25 March 2014
http://seattletimes.com/html/opinion/2023217879_william_easterly_oped_gates_foundation_25.xml.html

II. Determinants of Economic Growth

Perkins, Chapter 3, Economic Growth: Concepts and Patterns

Easterly: Chapters 2, 3 and 6. “The Panaceas that failed.”

“The Poor and the Rich,” *The Economist Magazine*
<http://pages.stern.nyu.edu/~nroubini/articles/GrowthTheoryECO.htm>

L. Pritchett, “Divergence, Big Time,” *Journal of Economic Perspectives* (Summer 1997), pp. 3-17,
<http://www.econ.nyu.edu/user/debraj/Courses/Readings/Pritchett.pdf?seq=14>

III. Theories of Economic Growth

Perkins, Chapter 4, Theories of Economic Growth

Easterly Chps. 8 and 9

P. Krugman “The Myth of Asia’s Miracle.” *Foreign Affairs*; Nov/Dec 1994;
<http://www.pairault.fr/documents/lecture3s2009.pdf>

IV. Alternative Models of Development: Presentation 1.

Marginal Revolution University Videos

<http://mruniversity.com/courses/development-economics-0>

V. Institutions, Geography and History

Perkins, Chp. 5, States and Markets

Easterly, Chp. 11

“Root Causes,” by D. Acemoglu:

<http://www.imf.org/external/pubs/ft/fandd/2003/06/pdf/acemoglu.pdf>

“The Primacy of Institutions,” by Rodrik and Subramanian

<http://www.ppge.ufrgs.br/giacomo/arquivos/eco02237/rodrik-subramanian-2003.pdf>

“Institutions Matter, but Not for Everything,” by J. Sachs:

<https://www.imf.org/external/pubs/ft/fandd/2003/06/pdf/sachs.pdf>

“The Mystery of Capital,” by H. de Soto:

<https://www.imf.org/external/pubs/ft/fandd/2001/03/desoto.htm>

J. Diamond, “Why Did Human History Unfold Differently on Different Continents For The Last 13,000 Years?” www.edge.org/3rd_culture/diamond/diamond_p1.html

J. Sachs, “Government, Geography and Growth,” *Foreign Affairs* (Sept./Oct. 2012)

http://jeffsachs.org/wp-content/uploads/2012/08/Why-Nations-Fail_Sachs-Review.pdf

D. Lindauer and L. Pritchett, “What’s the Big Idea? The Third Generation of Policies for Economic Growth,” *Economia* (Fall 2002), pp. 1-18.

<http://www.wellesley.edu/sites/default/files/assets/departments/economics/files/lindauer.pdf>

Nunn, Nathan “The Importance of History for Economic Development,”

http://fbemoodle.emu.edu.tr/pluginfile.php/32910/mod_resource/content/1/the_importance_of_economic_development_Nunn_ARE_2009.pdf

Nunn, Nathan (2008). “The Long-term Effects of Africa's Slave Trades.” *Quarterly Journal of Economics* 123 (1): 139-176.

D. Rodrik, “Goodbye Washington Consensus, Hello Washington Confusion?” *Journal of Economic Literature* (December 2006), pp. 973-987.

<https://www.sss.ias.edu/files/pdfs/Rodrik/Research/Goodbye-Washington.pdf>

Tim Harford. "Why Poor Countries are Poor." Chp. 8. *The Undercover Economist*, excerpted at <http://reason.com/archives/2006/03/01/why-poor-countries-are-poor>

P. Romer: TED Talk "Charter Cities." http://www.ted.com/talks/paul_romer.html

VI. Inequality and Poverty

Perkins, Chp. 6, Inequality and Poverty

H. Rosling, "Debunking third-world myths," (Feb. 2006);
<http://www.ted.com/index.php/talks/view/id/92>

A. Deaton, "Measuring Poverty," *Understanding Poverty*, ed. A. Banerjee (Oxford: 2006), at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=564001

The Economist, "The mountain man and the surgeon: Reflections on relative poverty in North America and Africa," <http://www.economist.com/node/5323888>

M. Jervon (2009) "The Relativity of Poverty and Income: How Reliable are African Economic Statistics?," *African Affairs*, 109/434, 77–96.
<http://www.sfu.ca/~mjervon/PDFs/Relativity%20of%20Poverty%20and%20Income%20-Jerven.pdf>

VII. Population

Perkins, Chp. 7, Population

Easterly: Chp. 5.

"Fanisi's Choice," by J. Tierney

The Ultimate Resource by J. Simon

D. Malakoff, "Are More People Necessarily a Problem?"
http://home.sandiego.edu/~kaufmann/hnrs379/Malakoff_2011.pdf

J. Kaiser, "Does Family Planning Bring Down Fertility?" *Science*, Population Issue (July 29, 2011), 548-49.

A. Banerjee and E. Duflo, "Pak Sudarno's Big Family," *Poor Economics* (Public Affairs: 2011), pp. 103-29.

VIII. Education

Perkins, Chapter 8, "Education"

Easterly: Chp. 4. “Educated for what?”

M. Kremer et al., “Teacher Absence in India: A Snapshot,” *Journal of the European Economic Association* (April-May 2005), pp. 658-667,
http://siteresources.worldbank.org/DEC/Resources/36660_Teacher_absence_in_India_EA_9_15_04_-_South_Asia_session_version.pdf

A. Banerjee and E. Duflo, “Addressing Absence,” *Journal of Economic Perspectives* (Winter 2006), pp. 117-132
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/089533006776526139>

TED, “Esther Duflo: Social experiments to fight poverty” (Feb 2010);
http://www.ted.com/talks/esther_duflo_social_experiments_to_fight_poverty.html

M. Rosenzweig, “Thinking Small: A Review of Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty ...” *Journal of Economic Literature* (March 2012), pp. 115-127.

IX. Foreign Aid

Perkins, Chp. 14, Foreign Aid

Easterly: Chps. 2, 7 and 12.

“Can Extreme Poverty Be Eliminated?” J. Sachs,
http://www.unmillenniumproject.org/documents/Scientific_AmericanSept2005.pdf

“How to Help Poor Countries,” by Birdsall, Rodrik and Subramanian
<http://www.foreignaffairs.com/articles/60830/nancy-birdsall-dani-rodrik-and-arvind-subramanian/how-to-help-poor-countries>

W. Easterly, “The Big Push Déjà Vu: A Review of Jeffrey Sachs’s *The End of Poverty: Economic Possibilities for Our Time*,” *Journal of Economic Literature* (March 2006), pp. 96-105, at <http://dri.fas.nyu.edu/docs/IO/11783/Bigpush.pdf>

W. Easterly, “Can Foreign Aid Buy Growth?” *Journal of Economic Perspectives*, 17(3): 23-48, <http://www.jstor.org/stable/3216821>

W. Easterly *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor*, Basic Books 2014.

N. Kristof, “Aid: Can It Work?,” *The New York Review of Books* (October 5, 2006)
<http://www.nybooks.com/articles/19374>

Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*, Farrar, Straus and Giroux, 2010.

Dambisa Moyo, “Why Foreign Aid Is Hurting Africa,” at <http://online.wsj.com/news/articles/SB123758895999200083?mg=reno64-wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB123758895999200083.html#articleTabs%3Darticle>

X. Agriculture, Trade and Development

Perkins, Chp. 16, Agriculture and Development

Perkins, Chp. 18, Trade and Development

“Why Trade Liberalization is Good for Growth,” by A. Krueger, http://www.relooney.info/EJ_33.pdf

P. Collier, “The political economy of Natural resources,” <http://users.ox.ac.uk/~econpco/research/pdfs/PoliticalEconomyofNaturalResources-SocialResearchArticle.pdf>

P. Collier, “Paul Collier on the Bottom Billion” (March 2008); TED Talk http://www.ted.com/talks/paul_collier_shares_4_ways_to_help_the_bottom_billion.html

Tim Harford. “Beer, Fries and Globalization.” Chp. 9, *The Undercover Economist*.

Paul Collier: “On Missing the Boat.” Chp. 6, *The Bottom Billion*.

Harvard Business School Case, “Angola and the Resource Curse” (2010).

XI. Recent Development Economics Methodologies

Tim Harford, “The random risks of randomized trials,” <http://timharford.com/2014/04/the-random-risks-of-randomised-trials/>

W. Easterly The Civil War in Development Economics, <http://aidwatchers.com/2009/12/the-civil-war-in-development-economics/>

Martin Ravallion, “Taking Ethical Validity Seriously,” <http://blogs.worldbank.org/impactevaluations/taking-ethical-validity-seriously>

S. Ziliak and E. Teather-Posadas, “The Unprincipled Randomization Principle in Economics and Medicine,” available for download at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2396806

The Economist, “Microcredit and poverty alleviation: The experimenters strike back,” June 10, 2014, <http://www.economist.com/blogs/freexchange/2014/06/microcredit-and-poverty-alleviation>

B. Crepon, F. Devoto, E. Duflo, W. Pariente, “Estimating the impact of microcredit on those who take it up: Evidence from a randomized experiment in Morocco, May 2014, <http://economics.mit.edu/files/6659>

S. Khandker, and H. Samad, “Dynamic Effects of Microcredit in Bangladesh,” <http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-6821>

XII. Microfinance and Credit Markets

Ray, D., *Development Economics*, Ch. 14.

“The Grameen Bank, Which Pioneered Loans For the Poor, Has Hit a Repayment Snag,” by Daniel Pearl and M. Phillips <http://online.wsj.com/public/resources/documents/pearl112701.htm>

“The hidden wealth of the poor,” *The Economist Magazine* <http://www.economist.com/node/5079324>

A. Banerjee and E. Duflo, “The Men from Kabul and the Eunuchs from India: The (Not so) Simple Economics of Lending to the Poor,” *Poor Economics* (Public Affairs: 2011), pp. 157-82.

D. Roodman, “Think Again” Microfinance,” *Foreign Policy* (February 2012) at http://www.foreignpolicy.com/articles/2012/02/01/think_again_microfinance

Hernando de Soto, “Globalization: Breaking Barriers to Participation,” (Feb. 19, 2004); <http://forum.iop.harvard.edu/content/globalization-breaking-barriers-participation>

R. La Porta and A. Shleifer, “Informality and Development.” *NBER Working Paper* 20205, June 2014.