

Econ 346
Economic Development
Fall 2013
Lafayette College

Tuesdays & Thursdays, 1:15-2:30
Simon 122

Prof. David Stifel
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Office Hours: Mondays 10:30-noon
 Wednesdays 1:30-3:00
 or by appointment

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Course Synopsis:

This course will introduce you to the study of the process of modern economic development. We will examine how standard micro- and macro-economic theories apply in the presence of market failures (when market equilibria are not efficient) and weak formal institutions that characterize developing countries. “Thinking like an economist” will be a consistent theme of the course as we consider rational behavior under various incentive structures (e.g. institutions, social norms, etc.) and differing degrees of risk. We begin by exploring the meaning of development and how to measure it, before turning to the analysis of the unevenness of development. The latter includes issues of economic inequality, poverty, nutrition, rural-urban migration, and the balance between agriculture and industry. We then proceed with several one-sector macro-models of development. We examine the types of informal land, labor, credit, and insurance markets that emerge and persist in the absence of the formal markets that we are accustomed to in developed countries. Finally, this course will not focus on any particular country or region, but will present the experiences of a variety of countries to illustrate major points.

Learning Outcomes:

After completing this course, you should be able to:

- Appreciate the complexities of economic development, and that policy prescriptions may not be straightforward;
- Analyze the consequences and policy implications of market imperfections/failures;
- Appreciate the subtlety of the counterfactual and internalize it in your everyday evaluation of policies and/or actions;
- Describe general reasons why very poor countries remain stuck in poverty traps; and
- Comprehend Jeff Hammer’s (Princeton University) saying: “Having a soft heart is a good thing. Letting it spread to your head is bad.”

Prerequisites:

The prerequisites for this course are either (a) Econ 210 (*Foundations of International Economics*) or (b) Econ 211 (*Intermediate Microeconomics*) and Econ 212 (*Intermediate Macroeconomics*).

Class Website:

A class website has been created using Moodle (<http://moodle.lafayette.edu>). The website contains the syllabus (and any updates) plus announcements, problem sets, a calendar of class events, and other useful information. You should check the Moodle site regularly.

Required Text:

1. Debraj Ray, *Development Economics*, Princeton University Press, 1998.
2. Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*, Oxford University Press, 2007.
(Available in paperback.)

Although it is not required, I strongly encourage you to subscribe to *The Economist*. This is a weekly magazine that anyone interested in economics, politics and/or international affairs should read religiously. We will occasionally read articles from *The Economist* for this course. You can get a student rate by subscribing on-line at:
<https://www.economistsubscriptions.com/students/us/>.

Evaluation:

There will be five forms of evaluation in this class:

1. Policy briefs (**30%**)
2. Peer grading of policy briefs (**10%**)
3. Weekly oral quizzes (**10%**)
4. Reading 1-page write-ups (**5%**)
5. Exams (**45%**)

1. Policy Briefs:

You will be required to write two short papers that we will refer to as "policy briefs." These briefs will each be worth **15%** (total of **30%**) of your grade and will be limited to five pages (double-spaced, 12-point Times New Roman, 1-inch margins) – I will not read beyond the fifth page if you write more. These policy briefs will give you an opportunity to explore a hot topic in development today – foreign aid – and an important book on development written recently for a broad audience.

The policy briefs will be due...

Policy Brief 1 Presentations:	Thursday, October 3	(2 minute presentations)
Policy Brief 1 Draft:	Tuesday, October 8	<i>Is foreign aid effective?</i>
Policy Brief 1 Final:	Thursday, October 17	
Policy Brief 2 Draft:	Tuesday, November 26	Report on <i>Bottom Billion</i> .
Policy Brief 2 Final:	Thursday, December 5	

The idea of these two papers is to research a topic and convey your point succinctly, as if you were writing a brief for policy makers. Your argument should be compelling and clear, and should be written for someone who is not an expert, but is an intelligent person without much time to read.

Since foreign aid is a hotly debated topic, there has been much written about it. In the first policy brief, you will need to wade through the various arguments, determine the points of disagreement, describe the evidence, determine where you stand, and justify your position in your own words – *all in five pages*. Possible positions that you can take are that foreign aid is (a) effective and should continue, (b) ineffective and should be discontinued, or (c) ineffective but could be made effective.

The initial draft of the paper will be due on Tuesday, October 8, in class, and the final draft will be due on Thursday, October 17, in class (note that because of Fall Break, we do not have class on Tuesday, October 15). On Thursday, October 3, you will make a 2-minute in-class presentation on your brief. This presentation will simulate a briefing of a senator as you walk down the hall with him/her to vote on an aid bill. As such, you and the Senator will pace back and forth in the classroom as you convince him/her of whether to vote for or against a bill to increase foreign aid allocations. You will do this with the help of only limited notes – i.e. one notecard with no more than 10 words on it.

For the second policy brief, you will read Paul Collier's book, *The Bottom Billion*, and write a five page brief (same format as the first paper) on it. You will write this for your boss who is an influential person. As such, you will need to cover the main themes and policy proposals, as well as provide clear and relevant commentary.

Warning: Do not leave these briefs until the last minute. For the first brief, there are quite a few articles to read (you should read *at least 9* of them). And for the second brief, you will need to read and digest the book before you can even consider writing. Further, the second brief is due just before Thanksgiving. As we all know, this is a busy time. So plan ahead!

Regarding late submission of papers:

- If the paper is not handed in during the class period, I will deduct a third of a letter grade (e.g. a B+ paper becomes a B paper).
- For each day that the paper is late I will deduct a letter grade (e.g. a B+ paper handed in two days late becomes a D+ paper).

A handout will be provided with additional information on the policy briefs and with potentially helpful references.

Citations and Academic Honesty: *How to cite references in your paper*

Cases of academic dishonesty will be dealt with according to College policy. College policies are clearly detailed in the “Student Handbook.” All intellectual work builds on the ideas of others; it is very important to **provide appropriate references to the sources you consult, whether they are paraphrased or quoted directly.**

For example, if you refer to the Burnside and Dollar paper in the text of your paper, the citation should appear in the following form...

...*blah blah* Burnside and Dollar (2000) *blah blah*...

In your reference section (page 6 of your policy brief), it should then appear as...

Burnside, Craig, and David Dollar. 2000. “Aid, Policies and Growth.” *American Economic Review*, 90(4): 847-868.

Do not include papers in your reference section unless you cite them in the text.

2. Peer Grading of Policy Briefs:

You will each be randomly assigned a policy brief written by one of your peers to evaluate and to comment on. Although I will assign the final grade for the paper, I will take your recommendation into account. *Grading guidelines* are provided in a separate handout. It will be very much worth your while to read these prior to writing your paper.

Your grading recommendations will be due in the class period following the due date for the first draft of each policy brief.

<u>Graded...</u>	<u>Date</u>	<u>Weight toward final grade</u>
<i>Policy Brief 1</i>	Thursday, October 10	(5%)
<i>Policy Brief 2</i>	Tuesday, December 3	(5%)

You will, in turn, receive a grade for your evaluation of your peer’s paper. Full credit will depend on your thoughtfulness, the degree to which your criticism is constructive, and the correspondence between the grade that you recommend and the grade that I give for your peer’s paper.

Since you and your classmates will be able to revise your briefs using the peer comments, it is important that you take this seriously and provide *constructive* criticism.

3. Oral Quizzes:

At the beginning of class each Thursday, there will be a short oral quiz to give you an incentive to keep up with the readings and the notes from class, and to review problem sets after they have been completed. They will count toward **10%** of your grade.

The way these quizzes will work is the following. For each of the four or five questions, a student will be selected randomly (I will use a random number generator prior to class to choose the three or four students). He or she will then be invited to the board to answer the question and to explain the answer to the rest of the class. Those students who do not attend class will get a zero for the quiz, while those who do attend class will get a 100. Those who are called upon to answer the question can get up to 50 extra points for a total of 150, depending on the quality of the answer. If you are unable to answer the question, you will lose 50 points. I will inform you of how many points you receive by recording them on the course Moodle site after class. Note that because the selection process will be random, each week you have the same chance of being chosen to present an answer. So come prepared.

4. Reading One-Page Write-Ups:

For some of the papers that we will read for class (i.e. not the text book), you will be asked to write a brief one-page summary of the reading to be handed in at the beginning of class on the day for which the reading is assigned. These write-ups are marked with a "*" in the reading list, and will count toward **5%** of your grade.

5. Exams:

There will be two midterm exams administered in class, and a final exam. There will be **no makeups for the midterms**. If you have an official excuse for missing either of the midterms, the remaining exams will be reweighted accordingly. **You must take the final exam to get a grade.**

	<u>Date</u>	<u>Weight toward final grade</u>
Midterm 1	Thursday, September 19th	(20%)
Midterm 2	Thursday, November 7th	(20%)
Final	TBA	(20%)

Problem sets:

Problem sets will be provided, collected and comments given. Although they are not part of your formal evaluation (i.e. no direct credit), there are good reasons to take them seriously. If you understand the problem sets, you will likely do well on the exams since the problem sets are representative of the midterms and the final (i.e. indirect credit). Most importantly, though, you will have a better understanding of how to apply the concepts discussed in class. You are encouraged to collaborate with other students. But, you should write your own solutions in your own words, and you should keep in mind that it is in your best interest to not rely too heavily on your study partners/groups. Be sure that you understand and can present the solutions to the problems on your own.

Credit Hours:

The student work in this course is in full compliance with the federal definition of a four credit hour course. Please see the Lafayette College Compliance webpage (<http://registrar.lafayette.edu/files/2012/07/Federal-Credit-Hour-Policy-Web-Statement.doc>) for the full policy and practice statement.

Things to Remember:

“The poor don’t have much margin for error, so... ‘doing the best you can under constraints’ is a good place to start.” (Jeffrey Hammer, Princeton University, on the use of economic analysis to understand poverty)

Readings & Course Outline:

Note: "*" indicates that a one-page write up is due for this reading

I. Introduction

Charles Lindblom, *The Market System*, Chapters 1-3*

William Easterly, *The Elusive Quest for Growth*, Chapter 1, "To Help the Poor." (on Moodle)

Karen Freudenberger, *Livelihoods Without Livestock*. (on Moodle)*

Chapters 1 and 2, and Appendix 2 (for review)

View the following video:

http://www.ted.com/index.php/talks/hans_rosling_shows_the_best_stats_you_ve_ever_seen.html

and play around with the Gapminder data...

<http://www.gapminder.org/>

View the Miniature Earth video:

http://www.miniature-earth.com/me_english.htm

II. Players, Objectives & Approaches

A. Players?

- Selected sections of Paula Hoy, *Players and Issues in International Aid*, Kumarian Press, 1998. (on Moodle)
- Amy Gerhart, 2005, "Inside the World Bank," *Washington Post*, June 12. (on Moodle)
- Sebastian Mallaby, 2005, "Saving the World Bank," *Foreign Affairs*, May/June. (on Moodle)

B. Role of Government

- Irma Adelman, "The Role of Government in Economic Development," in Finn Tarp, ed, *Foreign Aid and Development: Lessons Learnt and Directions for the Future*, Routledge, 2000. (on Moodle)*
- Dani Rodrik, "Second-Best Institutions," NBER Working Paper 14050, 2008. (on Moodle)*
- T.S. Jayne and David Tschirley, "Food Price Spikes and Strategic Interactions Between the Public and Private Sectors: Market Failures or Governance Failures?" (on Moodle)*

III. Characterizing and Measuring the Process of Development

A. Poverty and Undernutrition

- Chapter 8

- Jean Dreze & Amartya Sen, *Hunger and Public Action*, Chapter 3, "Nutrition and Capability." (on Moodle)

B. Inequality and Development

- Chapters 6 and 7

C. Population Growth & Development

- Chapter 9

IV. Theories & Models of Development

A. Harrod-Domar and Solow Growth Models, and Convergence

- Chapter 3 and William Easterly, *The Elusive Quest for Growth*, Chapters 2 and 3. (on Moodle)

B. New Growth Theories and Evidence

- Chapter 4 (very brief coverage)

- Paul Krugman, 1994, "The Myth of the Asian Miracle," *Foreign Affairs*, November/December. (on Moodle)*

C. History and Expectations – Implications for Development Strategies

- Chapter 5 and Appendix 1 (for review)

D. Unevenness and Growth Models Revisited – Two Sectors (Urban-Rural)

- Chapter 10

V. Miscellaneous Topics

A. Famines

- Amartya Sen, *Development as Freedom*, Chapter 7, "Famines and Other Crises." (on Moodle)

B. Child Labor

- Christopher Udry, "Child Labor." (on Moodle)*

- Watch: Kaushik Basu's WIDER lecture on "Global Labour Standards versus Freedom of Choice" (approx. 90 minutes)

(<http://c3.unu.edu/unuvideo/index.cfm?fuseaction=event.home&EventID=32>)

VI. Wrap Up

- Ricardo Contreras, "Competing Theories of Economic Development." (on Moodle)