

Princeton University
Woodrow Wilson School Graduate Program
Spring 2005

WWS 562b (Prereq:511b)
Economic Analysis of Development: Basic
Tuesday; 7:00PM
Robertson Hall, room # 015

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Course Description:

Introduction to the processes of economic development. Covers a variety of topics including the analysis of various theories of development, poverty and inequality measurement, migration policy, the brain drain, etc. The main emphasis will be on analytical modeling.

Website: <http://econweb.rutgers.edu/gang/coursematerials/WWS> . This website will contain updates to this syllabus, links to articles, and other course materials.

Office Hours: My office hours are a bit hard to arrange this term. This is because the class time had to fit into my constraints and the constraints of WWS. I will be arriving on campus just in time for class on Tuesdays at 7:00 PM. Certainly I will be available for discussions after class. In addition, I plan on coming to Princeton on Wednesdays. The timing is still a bit uncertain, but I plan to be here for the Development Workshop, so office hours will most likely be at 10:30 or 11:00 AM. I am always available by email. If we need to talk on other days email me and we can set up a time to speak on the phone.

Examinations: There will be two exams. The midterm will be an in-class, open-everything exam in week six of class. The final will be take home. The weights in determining the course grade will be

Assignments: There will be one or two data exercises, using data that I will make available and you will analyze. You will be allowed to work in groups of up to four people. You will turn in a maximum 5 page report based on your analysis of the data.

Grading: The weights determining the course grade are 32 per cent for the midterm, 33 per cent for the final, 25 percent for the data exercise(s), and 10 per cent for class participation.

Group Policy Exercise: The primary goal of this class is to apply theoretical and empirical economic analysis to real policy problems. To facilitate this, select weeks will include a brief presentation by one group on a policy proposal or case. By the second week of class, you should have formed groups and scheduled these presentations. Further guidance on these will be provided on a case-by-case basis for each topic. Each person will be involved in one and only one group policy presentation. A one-page synopsis of each presentation should be turned the day of the presentation.

Texts: This is not a textbook class. It has been suggested to me that most of the students will have taken a development class as undergraduates, and it is not appropriate to teach this class as a first course in development economics. What I have opted to do is to discuss certain specialized topics of interested. While I will provide a context for each of the topics discussed, we will not generally spend much time on the basics of development economics theory. There are several texts generally available. They are differentiated products offered at various levels of sophistication (often, I assume unintentionally, in the same volume). My suggestion is that you get a hold of almost any text in modern development economics and refer to it to gain perspective. I list four, though there are many. The first is typically used in undergraduate classes, the second at upper level undergraduate/master's level courses, the third at master's level courses, and the fourth at master's/ Ph.D.'s.

Michael P. Todaro and Stephen C. Smith (2003). *Economic Development*, 8th edition or later, Addison Wesley, 2003.

Debray Ray (1998). *Development Economics* (Princeton: Princeton University Press)

Kaushik Basu (1997). *Kaushik Analytical Development Economics: The Less Developed Economy Revisited*, MIT Press, Cambridge, MA.

Bardhan, Pranab and Christopher Udry (1999). *Development Microeconomics*, Oxford University Press.

Problems to Work On: All of the texts contain a good sets of discussion questions at the end of each chapter. These are useful for developing your understanding of the problems of developing economies. An online study guide is available for the Todaro and Smith text and is available for free at <http://www.aw.com/todaro>, where helpful exercises, practice quizzes, review, a web guide, and additional material are available. This is useful even if you use a different text, or no text.

Course Outline

The readings and lectures should be used as a catalyst in your exploration of development economics.

Class 1. February 1: Introduction

Class 2. February 8: Introduction continued

An excellent source of introductory material on development at a fairly high level of conceptual sophistication is the annual lectures delivered at WIDER in Helsinki, part of the United Nations University. Several are available as webcasts and all are available online and are quite readable. These are available at <http://www.wider.unu.edu>. Choose Annual Lectures on the menu under Events.

Preliminary concepts

Perspectives in development (outline of major development models)

Look around <http://www.gdnet.org>

Think about '[The Development Game](#)'

Class 3. February 15: Measuring Development

Class 4. February 22: Measuring Development continued

Go to economist.com and search for Big Mac index.

Article on inequality: <http://www.worldbank.org/poverty/inequal/methods/litchfie.pdf>

Look around: <http://www.worldbank.org/poverty/inequal/index.htm>

Look around: <http://www.worldbank.org/poverty/index.htm>

Angus Deaton (2001). "Counting the World's Poor: Problems and Possible Solutions." *World Bank Research Observer* 16(2) pp. 125-148.

Martin Ravallion (2001). "Comment on 'Counting the World's Poor'." *World Bank Research Observer* 16(2) pp. 149-156.

T.N. Srinivasan (2001). "Comment on 'Counting the World's Poor'." *World Bank Research Observer* 16(2) pp. 157-168.

Timothy Besley and Robin Burgess (2003). "Halving Global Poverty." *Journal of Economic Perspectives* 17(3) pp. 3-22.

Gary S. Fields (2001). *Distribution and Development: A New Look at the Developing World*. MIT Press.

Introduction to measurement issues

Output and welfare (PPP)

Poverty

Inequality

Mobility

Links between poverty, inequality, output and mobility

Class 5. March 1: Trade, Environment, and Development & Corporate Responsibility

Kirk Hamilton (16 June 2003), "Environment and Trade". Webcast lecture (approximately 3 hours). Available at <http://www.unu.edu> choose Webcasts, and search for this lecture (approximately page 8).

Seema Arora and Shubhashis Gangopadhyay (1995). "Toward a Theoretical Model of Voluntary Overcompliance," *Journal of Economic Behavior and Organization* 28, pp. 289-309.

Kathleen Segerson and Thomas J. Miceli (1998). "Voluntary Environmental Agreements: Good or Bad News for Environmental Protection," *Journal of Environmental Economics and Management* 36, pp. 109-130.

Kaushik Basu (1997). "The Altruism of International Labour Standards," *India Today*, July 14, 1997.

John T. Scott (2003). "Corporate Responsibility and Environmental Research Development," *Manuscript, Dartmouth College*.

Andrew D. Foster and Mark R. Rosenzweig (2003). "Economic Growth and the Rise of Forests," *Quarterly Journal of Economics* 118(2) pp.601-637.

Class 6. March 8: Catching Up and In-class Midterm Examination

SPRING BREAK: March 15

Class 7. March 22: Economic Demography and Population Change

Ronald Lee (2003). "The Demographic Transition: Three Centuries of Fundamental Change." *Journal of Economic Perspectives* 17(4) 167-190.

John Bongaarts (1998). "Demographic Consequences of Declining Fertility ." *Science*, New Series, Vol. 282, No. 5388. (Oct. 16, 1998), pp. 419-420.

Introduction to demography and the demographic transition

Malthus

Inside the household

Economic theory of fertility

Population change, growth, poverty and inequality

Class 8. March 29: Labor Markets, Internal/International Migration, Brain Drain

Ricardo Faini (2003). "[*The Brain Drain: an Unmitigated Blessing?*](#)" Manuscript.

Gordon Betcherman (2001). "[*An Overview of Labor Markets Worldwide: Key Trends and Major Policy Issues*](#)".

Ann Harrison and Edward Leamer (1997). "Labor Markets in Developing Countries: An Agenda for Research," *Journal of Labor Economics* 15(3, Part 2) pp. S1-S19.

Jagdish Bhagwati, Arvind Panagariya, and T.N. Srinivasan (2004). "The Muddles over Outsourcing," *Journal of Economic Perspectives* 18(4) pp. 94-114.

Class 9. April 5: Rural Credit Markets and Microfinance

Jonathan Morduch (2000). "The Microfinance Schism," *World Development* 28(4) pp. 617-629.

Jonathan Morduch (1999). "The Microfinance Promise," *Journal of Economic Literature* 37(4) pp. 1569-1614.

The root of credit market failures is lack of collateral. New institutions like Bangladesh's Grameen Bank and Bolivia's BancoSol have shown that it is possible to secure high rates of repayment while lending to poor households. The key is a series of new mechanisms, most famously "group-lending" with joint liability.

Class 10. April 12: Development Policy Making, Role of State, Corruption

Pranab Bardhan (1990). "Symposium on the State and Economic Development," *The Journal of Economic Perspectives* 4(3) pp. 3-7.

Anne O. Krueger (1990). "Government Failures in Development," *The Journal of Economic Perspectives*, 4(3) pp. 9-23.

Rule of law

Property rights

How decisions are made

Class 11. April 19: Foreign Aid

Howard Pack and Janet Rothenberg Pack (1990). "Is Foreign Aid Fungible? The Case of Indonesia," *Economic Journal*. 100(339) pp. 188-194.

William Easterly (2003). Can Foreign Aid Buy Growth? *Journal of Economic Perspectives* 17(3) pp. 23-48.

Craig Burnside and David Dollar (2000). "Aid, Policies, and Growth." *American Economic Review*, September 2000 90(4), pp. 847-868.

William Easterly, Ross Levine and David Roodman (2003). [New Data, New Doubts: A Comment on Burnside and Dollar's "Aid, Policies, and Growth"](#).

Fiscal and revenue impacts of aid.

Debate over aid and growth.

Does aid matter?

Class 12. April 26: Trade Liberalization, Regional Agreements, WTO

Jagdish N. Bhagwati and Ross Garnaut (2003) "Say No To This Free Trade Deal," [The Australian](#) reprinted on website of Council of Foreign Relations.

Jagdish N. Bhagwati and Arvind Panagariya (2003). "Bilateral Trade Treaties Are a Sham," [Financial Times](#), July 13, 2003 reprinted on website of Council of Foreign Relations.

Is liberalization good or bad?

The ups and downs of regional vs. multilateral agreements

Class XX. No Date Assigned: An Introduction to Growth and Development

Data on growth experiences of various countries

Basic growth stories/theory

Endogenous Growth

What the Lewis model can still tell us