

WWS 562b
Economics of Development

Class meetings: Tuesdays and Thursdays, 9:00 - 10:40 am

Instructor's Office: 361 Wallace Hall
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Course description

What accounts for the vast disparities in income levels and economic growth across the world? What are the most important drivers of economic growth, and what policies have the greatest potential for reducing poverty and raising human well-being in the developing world? This course covers the following topics: the broad patterns of development across the world; the theory of economic growth; geography; institutions; economic policy; evaluation of social programs; education; health; international migration; disasters and risk; microfinance; global public goods; foreign aid; and key organizations in international economic development.

Prerequisites

Eco 101 and Eco 302 or Eco 305. Calculus will occasionally be used in this course.

Requirements

You should keep up to date with the readings and participate in class. You may find it helpful to form study groups to cover the class readings in advance of classes.

Class participation will count for 15% of the semester grade.

Group presentations on key organizations in international economic development will count for 20% of the semester grade (to be shared by all in group). See class schedule for dates of the presentations. Exact group assignments to follow, and will depend on course enrollment.

A **final paper** proposing an innovative development intervention will count for 25% of semester grade. Details to follow. Due on Thursday, May 10, at 5 p.m.

The **final examination** will count for 40% of the semester grade, and will cover class readings and discussion.

Course materials

Required texts

Jared Diamond, *Guns, Germs, and Steel*. New York: Norton, 1999.

William Easterly, *The Elusive Quest for Growth*. Cambridge, MA: MIT Press, 2001.

Michael Kremer and Rachel Glennerster, *Strong Medicine : Creating Incentives for Pharmaceutical Research on Neglected Diseases*. Princeton: Princeton University Press, 2004.

Debraj Ray, *Development Economics*. Princeton: Princeton University Press, 1998.

Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time*. New York: Penguin, 2005.

Film “Life and Debt” (to be screened in class, and also available online)

Access to readings

Readings that are not available electronically via BlackBoard are in the course packet or in the books required for purchase.

Reading List

Economic Development: The Facts and the Puzzles (1 class)

Ray, *Development Economics*, Ch. 1-2

Easterly, *The Elusive Quest for Growth*, Prologue and Ch. 1

Sachs, *The End of Poverty*, Ch. 1

“Table 1: Size of the Economy,” *World Development Report 2001*.

<http://siteresources.worldbank.org/INTPOVERTY/Resources/WDR/English-Full-Text-Report/tab1.pdf>

“Table 2: Quality of Life,” *World Development Report 2001*.

<http://siteresources.worldbank.org/INTPOVERTY/Resources/WDR/English-Full-Text-Report/tab2.pdf>

World Bank, *World Development Report 2001: Attacking Poverty*. Washington, DC: 2001.

(*Skim, according to your interests.*)

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20195989~pagePK:148956~piPK:216618~theSitePK:336992,00.html>

Optional reading:

Amartya Sen, *Development as Freedom*, Knopf, New York, 1999.

Amartya Sen, "The Concept of Development," in Chenery and Srinivasan, eds., *Handbook of Development Economics*, Vol. 1, Elsevier Science Publishers, 1988.

Kaushik Basu, "On the Goals of Development," in G.M. Meier and J.E. Stiglitz (2001), p. 61-102 (including comments by Paul Streeten and Michael Lipton).

William Easterly, "Life During Growth," *Journal of Economic Growth*, 4(3), September 1999.

<http://www.kluweronline.com/issn/1381-4338/contents>

Angus Maddison, *The World Economy: A Millennial Perspective*, OECD Development Centre Studies, 2001, ch. 1-2 and appendix A.

Drivers of Economic Growth (1 class)

Ray, *Development Economics*, Ch. 3 “Economic Growth”

Easterly, *The Elusive Quest for Growth*, Ch. 2-3

Sachs, *The End of Poverty*, Ch. 3

Lant Pritchett, "Divergence, Big Time," *Journal of Economic Perspectives*, Summer 1997. Reprinted in Meier & Rauch (2000), pp. 114-118.

Geography and Development (2 classes)

Class 1:

David S. Landes, "Why Europe and the West? Why not China?" *Journal of Economic Perspectives*, Vol. 20, No. 2, Spring 2006, pp. 3-22.

Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. Fontana Press: London, 1989. "The European Miracle", in Chapter 1, pp. 20-38 (page numbers may vary across editions).

David Bloom and Jeffrey Sachs, "Geography, Demography, and Economic Growth in Africa," *Brookings Papers on Economic Activity*, 1998:2.

Sachs, *The End of Poverty*, Ch. 2

Class 2:

Diamond, *Guns, Germs, and Steel*, Prologue, Ch. 1, Ch. 4-10 (and other chapters according to your interests)

Institutions (2 classes)

Class 1: Empirical evidence on institutions and development

Daron Acemoglu; Simon Johnson; James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *The American Economic Review*, Vol. 91, No. 5, Dec. 2001, pp. 1369-1401.

Daron Acemoglu; Simon Johnson; James A. Robinson, "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics*, Vol. 117, No. 4, November 2002, pp. 1231-1294.

Dean Yang, "Integrity for Hire: An Analysis of a Widespread Program for Combating Customs Corruption," mimeo (forthcoming in *Journal of Law and Economics*, Vol. 51, February 2008).

Class 2:

Acemoglu, Johnson, and Robinson, "Institutions as the Fundamental Cause of Long-Run Growth," mimeo, MIT, 2004. <http://www.nber.org/papers/w10481.pdf>

Economic policy (2 classes)

Easterly, *The Elusive Quest for Growth*, Ch. 11

John Williamson, *What Washington Means by Policy Reform*, Institute for International Economics, November 2002 update. <http://www.iie.com/publications/papers/williamson1102-2.htm>

John Williamson, "From Reform Agenda to Damaged Brand Name," *Finance and Development*, September 2003. <http://www.imf.org/external/pubs/ft/fandd/2003/09/pdf/williams.pdf>

Ricardo Hausmann and Dani Rodrik, "Economic Development as Self-Discovery," NBER Discussion Paper No. 8952, May 2002. <http://www.nber.org/papers/w8952.pdf>

Dani Rodrik, "Discovering El Salvador's Production Potential," in Ricardo Hausmann, ed., *A National Development Agenda for El Salvador*, 2003.

<http://ksghome.harvard.edu/~rhausma.cid.ksg/elsvdr/Chapter%202%20self-discovery%20wbib.pdf>

Optional reading:

Dani Rodrik, "Getting Interventions Right: How South Korea and Taiwan Grew Rich," *Economic Policy*, April 1995.

The Evaluation Problem: How Do We Know What Works? (1 class)

Michael Kremer, "Improving School Quality in Developing Countries," in Anne O. Krueger, ed., *Economic Policy Reform: The Second Stage*, University of Chicago Press: Chicago, 2000.

Michael Kremer, "Randomized Evaluations of Educational Programs in Developing Countries: Some Lessons," *American Economic Association Papers and Proceedings*, Vol. 93 (2), May 2003, pp. 102-106.

Education (2 classes)

Easterly, *The Elusive Quest for Growth*, Ch. 4

Jess Benhabib and Mark Spiegel, "The Role of Human Capital in Economic Development," *Journal of Monetary Economics*, Oct. 1994.

George Psacharopoulos, "Economic Impact of Education," from G. Psacharopoulos, *The Economic Impact of Education*, ICS Press, 1991.

Joshua Angrist, Eric Bettinger, Erik Bloom, Elizabeth King, and Michael Kremer, "Vouchers for Private Schooling in Colombia: Evidence from a Randomized Natural Experiment," *American Economic Review*, Vol. 92, no. 5, December 2002, pp. 1535-1558.

Duflo and Hanna, "Monitoring Works: Getting Teachers to Come to School," mimeo, MIT, 2006. http://econ-www.mit.edu/faculty/download_pdf.php?id=1238

Michael Kremer and Edward Miguel, "Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities," *Econometrica*, Vol. 72, No. 1, 2004, pp. 159-217.

Health (2 classes)

Robert Fogel, "Economic Growth, Population Theory, and Physiology: The Bearing of Long-term Processes on the Making of Economic Policy," *American Economic Review*, 84(3), June 1994, pp. 369-395. <http://www.jstor.org/>

Commission on Macroeconomics and Health (2001). *Macroeconomics and Health: Investing in Health for Economic Development*. Geneva: World Health Organization.

<http://www.cid.harvard.edu/cidcmh/CMHReport.pdf>

Required reading: Executive Summary (skim remainder according to your interests)

Deon Filmer, Jeffrey Hammer, and Lant Pritchett, "Weak Links in the Chain: A Diagnosis of Health Policy in Poor Countries," *World Bank Research Observer*, 15(2), August 2000, pp. 199-224.

Sharon Maccini and Dean Yang, "Under the Weather: Health, Schooling, and Socioeconomic Consequences of Early-Life Rainfall," mimeo, University of Michigan, 2006.

http://www.umich.edu/~deanyang/papers/macciniyang_undertheweather.pdf

Credit and Microfinance (1 class)

Ray, *Development Economics*, Ch. 14 "Credit"

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

Nava Ashraf, Dean Karlan, and Wesley Yin, "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines," *Quarterly Journal of Economics*, Vol. 121 No. 2, May 2006, pp. 635-672.

Dean Karlan and Xavier Gine, "Group versus Individual Liability: A Field Experiment in the Philippines," mimeo, Yale University and World Bank, April 2006.

<http://aida.econ.yale.edu/karlan/papers/GroupversusIndividualLiability.pdf>

Disasters, Insurance, and Risk (1 class)

Ray, *Development Economics*, Ch. 15 "Insurance"

Easterly, *The Elusive Quest for Growth*, Ch. 10

Easterly, Kremer, Pritchett, and Summers, "Good Policy or Good Luck? Country Growth Performance and Temporary Shocks," *Journal of Monetary Economics*, December 1993.

Jonathan Morduch, "Between the State and Market: Can Informal Insurance Patch the Safety Net?" *World Bank Research Observer*, 14(2), August 1999.

Dean Yang, "Coping with Disaster: The Impact of Hurricanes on International Financial Flows, 1970-2002," mimeo, University of Michigan.

http://www.umich.edu/~deanyang/papers/yang_copedist.pdf

Dean Yang, "Are Remittances Insurance? Evidence from Rainfall Shocks in the Philippines," mimeo, University of Michigan (forthcoming in *World Bank Economic Review*).

http://www.umich.edu/~deanyang/papers/yangchoi_insurance.pdf

International migration (1 class)

“Economics Focus: Monetary lifeline,” *The Economist*, July 31, 2004, p. 66.

World Bank, *Global Economic Prospects 2006: Economic Implications of Remittances and Migration*. Chapters 4 and 5.

Dean Yang, “International Migration, Human Capital, and Entrepreneurship: Evidence from Philippine Migrants’ Exchange Rate Shocks,” NBER Working Paper 12325, June 2006.

Nancy Birdsall, Dani Rodrik, and Arvind Subramanian, “How to Help Poor Countries,” *Foreign Affairs*, Vol. 84, Iss. 4, Jul/Aug 2005, p. 136.

Optional reading:

United Nations, *International Migration Report 2002*, UN Population Division, New York.
<http://www.un.org/esa/population/publications/ittmig2002/2002ITTMIGTEXT22-11.pdf>

Global public goods (application to public health) (2 classes)

Prabhat Jha, et. al., "Improving the Health of the Global Poor," *Science*, Vol. 295, March 15, 2002, pp. 2036-2039. <http://www.earthinstitute.columbia.edu/about/director/pubs/science031502.pdf>

Kremer, Michael and Rachel Glennerster, *Strong Medicine: Creating Incentives for Pharmaceutical Research on Neglected Diseases*. Princeton: Princeton University Press, 2004.

Jeffrey Sachs, "Helping the World's Poorest," *The Economist*, Aug. 12, 1999.

Foreign aid (2 classes)

Jeffrey Sachs, *The End of Poverty*, Chapters 11-14 (skim chapters 15-18 according to your interests).

William Easterly, “Can Foreign Aid Buy Growth?” *Journal of Economic Perspectives*, Vol. 17, No. 3, Summer 2003, pp. 23-48.

William 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*, Vol. XLIV, March 2006, pp. 96-105.

Nicholas Kristof, “Aid: Can It Work?” *New York Review of Books*, Vol. 53, No. 15, October 5, 2006.

Jeffrey Sachs, “How Aid Can Work” (Letter to the Editor), *New York Review of Books*, Vol. 53, No. 20, December 21, 2006.

The Economist, “Special Report: The \$25 billion question – Aid to Africa,” Vol. 376, Iss. 8433, p. 25.