

Economic Development Programming and Policy Planning Mr. Nugent Spring 2005
Economics 644

Class: M, W 10- 11: 50

Classroom: KAP 167

Office Hours: M, W 12-2 and by appointment

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Course Description: Model construction and application to policy and planning: open economy macroeconomics, trade and investment, institutions, technology, income inequality, environment, policy reforms, political economy.

Special Note: Attendance at (although not necessarily enrollment in) the various Development Seminars is highly recommended. Unless otherwise announced, these seminars are held on Wednesday afternoons 5-6:30 PM in KAP 319. They represent excellent opportunities for students to become familiar with many issues at the frontiers of the field and to meet and hear important professionals talking about their work on such issues. Copies of the papers to be presented are normally available a few days in advance in a mailbox marked DEVELOPMENT SEMINAR in the Departmental Mailroom (KAP 300A) or in the case of jointly sponsored seminars in those boxes. Regular participation in the seminar is a must, however, for PhD students specializing in Development.

I. Purposes of this course: (1) To familiarize the student with a variety of analytical tools for policy planning- both short-term and long term; and especially with experience on "how to do it" at the macro or sectoral levels in a wide variety of countries and economic environments.

(2) To provide experience in the critical evaluation of the assumptions, economic and political economy modeling, empirical evidence and the validity of alternative policy recommendations.

(3) To encourage original research in the field by modifying existing models, trying to identify ways to obtain more relevant empirical evidence, to develop new models and to derive new policy implications.

(4) To call attention to the pros and cons on some of the most important new but also enduring issues in the field and of the availability of data sets useful to investigating them empirically.

II. Subject Matter and the Relation of this Course to Others

Since the Department offers a variety of different courses in the field of Development Economics, this course deliberately gives but minimal recognition to topics covered in depth in those courses, as important and basic to the field as they are. Some overlap, however, is inevitable given the changing nature of the field and the changing content of this course over time. Instead emphasis will be given to issues of current policy concern, especially to those at the **Macroeconomic** or sectoral level, including institutions and political economy.

III. Background:

Although participation by students outside of Economics and Political Economy is encouraged, the fact that this course is at the 600 level indicates that students should have been exposed to M.A. level micro and macro level courses, such as 500 and 501 or better 503 and 505. Given the empirical nature of much of the course, some exposure to econometrics 414 or 511 or 513 is essential. Students with strong theoretical and empirical tools are strongly encouraged to attempt applications of these tools when and where they feel they are relevant. Those with less strong backgrounds in these respects are encouraged to concentrate on political economy and institutional issues. Students coming from LDCs or with experience in LDCs are encouraged to share that experience with the rest of the class when that experience seems relevant to the issues and articles under discussion.

IV. Standards, Course Requirements and Grades:

Because the syllabus was put together prior to the start of the semester, it is possible that some requirements may have to be changed as a result of unforeseen developments.

(1) 40% of the grade in this course is based on performance on a series of four short papers and exercises (out of the six tasks or alternatives identified below); 25% is for a term paper which is due no later than Tuesday April 26 at 12 noon; 25% is for performance on the final exam on Monday May 9 at 8-10AM and the remaining 10% will be based on class participation including class presentations. (2) To receive full grades on the papers, the papers must be submitted on (or before) the date required. Late papers will be discounted by 10% per day late and no papers will be accepted after May 3 at 4PM. (**No** requests for INCOMPLETE at the end of the class will be considered unless **strictly** justified for emergency health reasons.) In writing papers, students should be careful to attribute to others the data, ideas, etc. taken from these sources by providing detailed references so as to avoid any suspicion of plagiarism and make it easy for anyone reading the paper to quickly locate the references and data sources. (3) While students are allowed to talk to each other about the issues involved in the assignments and the readings, **no collaboration whatsoever is permitted in writing the papers (unless otherwise indicated).**

V. Schedule of Papers and Due Dates

Each short paper should be limited to fifteen pages double spaced (exclusive of tables, figures and references).

Paper 1: January 31 At beginning of class and oral presentation :

Paper 2: February 14 At beginning of class and oral presentation

Paper 3: March 3 At the beginning of class and oral presentation

Paper 4: March 21 At the beginning of class and oral presentation

Paper 5: April 4 At the beginning of class and oral presentation

Paper 6: April 13 At the beginning of class and oral presentation

Term Paper: April 25 at the beginning of class Tuesday Dec. 9 at 12 noon.

Term Paper

The term paper may be based on an extended version of any of your four short papers or on a topic of your choice but on a topic approved by the instructor, based on large part by its relevance to this course. The term paper should contain a brief motivation for the importance of the subject, a brief literature review, a theory section (preferable extending what exists in the literature), empirical evidence, and conclusions for theory, policy and further research. If the term paper is based on a short paper, its extension of that short paper should be very substantial.

A two page proposal of your term paper, indicating why it is important, what is new relative to the literature and basically what you propose to do in the paper is due on Thursday February 24.

VI. Class and Readings Schedule: First Class M Jan 10. Last Class April 27; No Class Jan 17, Feb 21, March 14, 16 due to holidays

Required readings are indicated by * ; items on reserve by (r).

1: Introduction: Overview of the Course and a First Run through Assessing the Relative Importance of Institutions, Factor Accumulation, Geography and Politics in Growth and Development

**Roberto Rigobon and Dani Rodrik “Rule of Law, Democracy, Openness and Income: Estimating the Interrelationships”

2. Growth Theory, Growth Accounting, Convergence and Development, Developed Countries and Catchup Countries like those of East Asia?

* Charles I Jones Ch 1, 2 ;Debraj Ray, *Development Economics*, Princeton, Ch. 3 ®

*Robert Barro and Xavier Xala-i-Martin *Economic Growth*, McGraw-Hill, 1995, Ch. 1-5 (Skim Only), Ch. 10, 11 ®

YN Ch. 9 ®

Sachs and Larrain, Ch 18

W. Easterly 2001 *The Elusive Quest for Growth : Economists' Adventures and Misadventures in the Tropics*, Ch 1-3.

World Bank The East Asian Miracle.

*Chang-Tai Hsieh 2002. What Explains the Industrial Revolution in East Asia? Evidence from the Factor Markets" *AER* 92 (June), 502-526.

Krugman, 1994 "The Myth of Asia's Miracle" *Foreign Affairs* Nov/Dec 73 (6) 62-78.

Young 1995. "The Tyranny of Numbers Confronting the Statistical Realities of the East Asian Growth Experience" *QJE* 110, 641-680.

Angus Maddison 2000. *Monitoring the World Economy, 1820-1992*. Paris: OECD Development Studies Centre.

Angus Maddison 2002. *The World Economy: A Millennial Perspective*. Paris: OECD Development Centre.

Dani Rodrik 1999 Critique of East Asian Miracle

3. Putting New Elements into Growth Models: Human Capital, Land, Infrastructure

*Jones Ch 3-5, Ray, Ch. 4, ®

* N.G. Mankiw, D. Romer and D.N. Weil 1992 A Contribution to the Empirics of Economic Growth. *QJE* (May) 407-437

Robert Barro and Xavier Xala-i-Martin *Economic Growth*, McGraw-Hill, 1995, Ch. 6-9 (Skim) ®

N. G. Mankiw 1995. "The Growth of Nations" *Brookings Papers on Economic Activity* 1: 1995, 275-326.

<http://www.jstor.org/view/00072303/di009472/00p0122b/0?currentResult=00072303%2bdi009472%2b00p0122b%2b0%2c01%2b19950000%2b9995%2b80049999&searchID=cc993341.10612479740&frame=noframe&sortOrder=SCORE&userID=807db963@usc.edu/01cc9933410050e192c2&dpi=3&viewContent=Article&config=jstor>

Danny Quah and R. Durlauf "New Empirics of Growth" *Discussion Paper University of Wisconsin, Maddison and LSE* (January). 1998

Peter Klenow and Andres Rodriguez-Clare " The Neoclassical Revival in Growth Economics: Has It Gone too Far?" *NBER Macroeconomics Annual*, 73-103.

H.S. Esfahani and M.T. Ramirez "Institutions, Infrastructure and Economic Growth *Journal of Development Economics*

Task 1: Studies like that of Rigobon and Rodrik and many others in sections 1-3 of this syllabus assume that all countries respond in the same way to shocks or variables and hence can be studied in the context of a single model with international cross-section or pooled data. What do you think of this assumption and why? How might you check its validity? If not valid, what alternatives would you propose? Can you find any empirical support for your position?

4. More Focus on the Role of Human Capital and the Micro-Macro Paradox: Focus on Methodological Problems

J.R. Behrman, (1995). 'The contribution of improved human resources to productivity'. Mimeo, Department of Economics, University of Pennsylvania, Philadelphia PA.

*L. Pritchett "Where Has All the Education Gone?" World Bank Policy Research Working Paper 1581.(p) <http://ideas.repec.org/p/wop/wobael/1581.html> *The World Bank Economic Review* 15 (3) 367-392.

Caselli, Esquivel and Lefort 1996 Reopening the Convergence Debate: A New Look at Cross Country Growth Empirics *Journal of Economic Growth* 1, 363-389.

N. Islam 1995 "Growth Empirics: A Panel Data Approach *QJE* 110 (4) , 1127-1170.

- Mark Bilal and Peter Klenow "Does Schooling Cause Growth or the Other Way Around?" 1997 <http://www.nber.org/papers/w6393.pdf> *The American Economic Review*, Vol. 90, Number 5., (2000).
- Paul Glewwe 1999. *The Economics of School Quality Investment in Developing Countries* Macmillan
- J.R. Behrman and A.B. Deolalikar "Health and Nutrition", *HDE*, Ch 14
- J.R. Behrman and A.B. Deolalikar 1993, Unobserved Household and Community Heterogeneity and the Labor Market Impact of Schooling *EDCC*, 41 (3), 461-488.
- T.P. Schultz, "Educational Investment and Returns", *HDE*, Ch 13.
- M.R. Rosenzweig Population Growth and Human Capital Investments: theory and Evidence *JPE* 98, S12-S70. Reprinted as Ch 2 in BUR.
- D. Thomas and J. Strauss 1997. Health and Wages: Evidence on Men and Women in Urban Brazil *Journal of Econometrics* 77, 159-185. Reprinted in BUR Ch 1.
- Lau, Jamison, Liu and Rivkin "Education and Economic Growth, *JDE* 41 (1) 1993
- Lau, Jamison and Louat Education and Productivity in Developing Countries: An Aggregate Production Function Approach, Background Paper for the World Development Report 1990.
- *Michael Kremer "Randomized Evaluations of Educational Programs in Developing Countries: Some Lessons
- Jere R. Behrman Human Resource Led Development? Review of Issues and Evidence ILO 1990.
- Krishna Kumar, Education, Technical Change and Openness
- Behrman, Jere R. and Anil B. Deolalikar 1991. "School Repetition, Dropouts, and The Rates of Return to Schooling: The Case of Indonesia", *Oxford Bulletin of Economics and Statistics* 53 (4), 467-480.
- Card, D. 2001. "Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems", *Econometrica* 69 (5), 1127-1160.
- Hanushek, E. and D. Kimko. "Schooling, Labor-Force Quality, and the Growth of Nations," *The American Economic Review*, Vol. 90, Number 5 (2000).
- Pritchett and Filmer 1997. What Educational Production Functions Really Show: A Positive Theory of Educational Expenditures
- *Paul Glewwe School and Skills in Developing Countries: Education Policies and Socioeconomic Outcomes *JEL* XL 2002, 436-482.
- Levine, R. and D. Renelt. "A Sensitivity Analysis of Cross-Country Growth Regressions," *The American Economic Review*, Vol. 82, No. 4 (1992).
- Psacharopoulos, George 1985. "Returns to Education: A Further International Update and Implications", *Journal of Human Resources* 20 (4) 584-604.
- Psacharopoulos, George and H.A. Patrinos 2002. Returns to Investment in Education: A Further Update, Washington, D.C. :World Bank Policy Research Working Paper 2881.
- Duflo, Esther 2001. Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment, *AER* September, 795-813,
- Angrist 1995. The Economic Returns to Schooling in the West Bank and Gaza Strip" *AER* Dec, 1065-1087.
- Chen and Nugent 2003
- Akerlof and Kranton 2002. "Identity and Schooling: Some Lessons from the Economics of Education", *JEL* 40 (4) , 1167-1201.
- Practice Term Paper Idea: Identify a paradox (i.e. some seeming inconsistency between different theoretical implications, between accepted theory and evidence or between different empirical findings). Offer an explanation of your own that would resolve the paradox. Offer some evidence for your explanation. Example: the Micro-Macro Paradox in the Rate of Return to Education and then develop your own (preferably new) explanation. Suggest how you might obtain evidence in support of it**

5. Technology Change and Some Endogenous Growth Models and their Applicability to Development

- Jones Ch 6-9

- Easterly and Levine 2001 Its Not Factor Accumulation: Stylized Facts and Growth Models World Bank Economic Review 15 (2), 177-219.
 - Easterly 2001, Ch 8,9
 - Temple 1999. The New Growth Evidence, JEL, March 1999, 112-156.
- Feenstra, Madani, Yang, and Liang "Testing Endogenous Growth in South Korea and Taiwan" Journal of Development Economics, Vol. 60, no. 2 (December 1999): 317-341.
<http://www.nber.org/papers/w6028.pdf>
- P.M. Romer "Increasing Returns and Long-Run Growth, JPE 94 (5 1986) 1002-1037.
<http://www.jstor.org/view/00223808/di951040/95p0004u/0?currentResult=00223808%2bdi951040%2b95p0004u%2b0%2c01%2b19861000%2b9995%2b80138999&searchID=8dd55340.10614252640&frame=noframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- R.E. Lucas "Why Doesn't Capital Flow from Rich to Poor Countries?" AER 80 (May 1990), 92-96.
<http://www.jstor.org/view/00028282/di971046/97p0017w/0?currentResult=00028282%2bdi971046%2b97p0017w%2b0%2c01%2b19900500%2b9995%2b80099499&searchID=8dd55340.10614253201&frame=noframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- S. Rebelo, Long-Run Policy Analysis and Long-Run Growth," JPE 99 (3 1991) 500-521.
<http://www.jstor.org/view/00223808/di971068/97p0273r/0?currentResult=00223808%2bdi971068%2b97p0273r%2b0%2c01%2b19910600%2b9995%2b80089399&searchID=8dd55340.10614253640&frame=noframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- R.E. Lucas, Jr. "On the Mechanics of Economic Development", JME 22 (1988), 3-42.
- P. David 1985. Clio and the Economics of QWERTY, AER 75 (May), 332-337.
- Kim and Nelson Technology, Learning and Innovation: Experiences of Newly Industrializing Countries. Cambridge: Cambridge University Press.
- Paul M. Romer Are Nonconvexities Important for Understanding Growth? AER 80 (1989) 97-103.
<http://www.jstor.org/view/00028282/di971046/97p0018x/0?currentResult=00028282%2bdi971046%2b97p0018x%2b0%2c01%2b19900500%2b9995%2b80099499&searchID=8dd55340.10614254270&frame=noframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- Paul Romer "Endogenous Technological Change" JPE 98 (Oct 1990) S71-102.
<http://www.jstor.org/view/00223808/di971064/97p0238k/0?currentResult=00223808%2bdi971064%2b97p0238k%2b0%2c01%2b19901000%2b9995%2b80098999&searchID=8dd55340.10614254760&frame=noframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- Aghion and Howitt 1998. *Endogenous Growth Theory*, Ch 10
- E. Jimenez "Human and Physical Infrastructure: Investment and Pricing Policies in Developing Countries (*HDE* 3b) (r)
http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000009265_3961006101840
- *Mark Harvey, Steve Quilley and Huw Beynon 2002. Exploring the Tomato: Transformations of Nature, Society and Economy. E Elgar,
- *Daniel Boorstin 1983. The Discoverers N.Y. Random House, esp. Book 1 Time Ch.7-9, Book 4, Ch 62-68
- J. Benhabib and Spiegel 1994 The Role of Human Capital in Economic Development: Evidence from Aggregate Cross Country Data JME 34, 143-173.
- J. Benhabib and Spiegel 2002 Human Capital and Technology Diffusion
- Task 2: Identify a specific technological change of importance to one or more developing countries. Describe how it came about and what difficulties it faced and problems and benefits it may have triggered. In the light of this, how would you model both its emergence and its effects on long run growth? How might your model be tested empirically? .**
- 6. Putting Inequality and Institutions into Growth and Development**
- Philippe Aghion and Jeffrey G. Williamson Growth Inequality and Globalization: Theory, History and Policy Cambridge U. Press.
- Drazen Ch 9,11.
- Clarke, G.R. "More Evidence on Income Distribution and growth". *Journal of Development Economics*, 1995, 47(2): 403-427.
- Deininger, K. and L. Squire 1996. "A New Data Set Measuring Income Inequality". *World Bank Economic Review*, 1996, 10:565-591.
- Deininger and Squire 1998. "New Ways of Looking at Old Issues: Inequality and Growth" JDE 57, 259-287.

- F. Bourguignon and Christian Morrisson 1998. "Inequality and Development: The Role of Dualism" *JDE* 57, 233-257.
- Alesina and D. Rodrik, "Distributive Politics and Economic Growth," *QJE* 109 (2), May 1994, 465-490.
<http://www.jstor.org/view/00335533/di976346/97p0165z/0?currentResult=00335533%2bdi976346%2b97p0165z%2b0%2c01%2b19940500%2b9995%2b80059499&searchID=8dd55340.10614261000&frame=noframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- Persson, T. and Tabellini, G. 1994. "Is Inequality Harmful for Growth?". *American Economic Review*, 84(3): 600-621.
- Forbes, Kathryn 2000. "A Reassessment of the Relationship between Inequality and Growth", *American Economic Review* 90, 869-887.
- Anand, Sudhir and Ravi Kanbur 1993. "Inequality and Development: A Critique" *Journal of Development Economics* 41 (June), 19-43.
- Kuznets, S. 1955. "Economic Growth and Income Inequality," *American Economic Review*, 45 (March), 1-28.
- Tornell, A. and A. Velasco 1992. "The Tragedy of the Commons and Economic Growth: Why Does Capital Flow from Rich to Poor Countries?" *Journal of Political Economy* 100 (6) 1208-1231.
- Tsakloglou, P. 1988. "Development and Inequality Revisited". *Applied Economics*, 20:509
- Chris Udry 2003. "Fieldwork, Economic Theory and Research on Institutions in Developing Countries", *AER* May 107-111.
- Haber, Taylor, Dye and Mariscal and Sokoloff papers in S. Heber, ed. 2000. *Political Institutions and Economic Growth in Latin America* Hoover Inst. Press.
- Hausmann and Rodrik 2002 *Economic Development as Self-Discovery*

7. Institutions and Development: Empirical Studies including those focusing on the demise of Africa

- North 1990. *Institutions, Institutional Change and Economic Performance* Cambridge University Press.
- * Barro, *Determinants of Economic Growth*, MIT Press, Ch. 1,2.(r,b)
- *W. Easterly and R. Levine "Africa's Growth Tragedy: A Retrospective, 1960-89" *QJE*, August 1995
 (p) http://econ.worldbank.org/files/284_wps1503.pdf
- Sender, J., "Africa's Economic Performance: Limitations of the Current Consensus," *Journal of Economic Perspectives*, Vol. 13, No. 3, (1999): 89-114.
- *Paul Collier and JW Gunning 1999a. Explaining African Economic Performance *JEL* 37 (March), 64-111. <http://www.csaee.ox.ac.uk/workingpapers/pdfs/9702text.pdf>
- Robert Bates 2000. Ethnicity and Development in Africa: A reappraisal *AER*, May, 131- 134.
- *Paul Collier and JW Gunning 1999b Why Has Africa Grown Slowly? *JEP*, Summer 1999, 3-22.
<http://www.emory.edu/COLLEGE/ECON/faculty/curran/Research%20Ideas/Collier.pdf>
- As well as other papers by Deaton, Ndulu and O'Connell, Schultz, in the same issue
- *J. Temple 1999 "The New Growth Evidence" *JEL* 37 (March), 112-156.
<http://www.jstor.org/view/00220515/di010570/01p0338s/0?currentResult=00220515%2bdi010570%2b01p0338s%2b0%2c01%2b19990300%2b9995%2b80009699&searchID=cc993341.10612505260&frame=noframe&sortOrder=SCORE&userID=807db963@usc.edu/01cc9933410050e192c2&dpi=3&viewContent=Article&config=jstor>
- *Ross Levine and David Renelt "A Sensitivity Analysis of Cross-Country Growth Regressions" *AER* 82 (Sept 1992) 942-963 (p). <http://www.jstor.org/view/00028282/di976315/97p01467/0>
- *Mancur Olson "Big Bills Left on the Sidewalk: Why Some Nations Are Rich and Others Poor" *JEP* 1996 (p)
<http://www.jstor.org/view/08953309/di980587/98p0302z/0?currentResult=08953309%2bdi980587%2b98p0302z%2b0%2c01%2b19960400%2b9995%2b80039599&searchID=cc993341.10612508860&frame=noframe&sortOrder=SCORE&userID=807db963@usc.edu/01cc9933410050e192c2&dpi=3&viewContent=Article&config=jstor>
- X.X. Sala-i-Martin 1997" I Just Ran Two Million Regressions" *AER Papers and Proceedings* ., May, 178-183 <http://www.jstor.org/view/00028282/di981877/98p0375q/0>
- Jeff Sachs and Andrew Warner "Fundamental Sources of Long-Run Growth" *AER* May 1997, 184-188.
<http://www.jstor.org/view/00028282/di981877/98p0376r/0?currentResult=00028282%2bdi981877%2b98p0376r%2b0>

http://www.sciencedirect.com/science?_ob=MIimg&_imagekey=B6VBV-3YXBCNF-D-2&_cdi=5936&_orig=browse&_coverDate=02%2F28%2F1995&_sk=99539998&_view=c&_wchp=dGLbVlzSkzS&_acct=C000051901&_version=1&_userid=1181656&_md5=fb2777255fba03bc3a3bd39e4cb0fd82&_ie=f.pdf

- Clague, P. Keefer, S. Knack, and M. Olson "Institutions and Economic Performance: Property Rights and Contract Enforcement" in C. Clague, ed., *Institutions and Economic Development*, Baltimore: Johns Hopkins University Press., 1997 ©
- C. Clague, P. Keefer, S. Knack, and M. Olson "Democracy, Autocracy, and the Institutions Supportive of Economic Growth" in C. Clague, ed., *Institutions and Economic Development*, Baltimore: Johns Hopkins University Press., 1997 ©
- Shahid Javed Burki and Guillermo E. Perry *Beyond the Washington Consensus: Institutions Matter*, World Bank 1998.
- Kaushik Basu, 1995. "Civil Institutions and Evolution: Concepts, Critique and Models" *JDE* 46, 19-33. http://www.sciencedirect.com/science?_ob=MIimg&_imagekey=B6VBV-3YXBCNF-D-2&_cdi=5936&_orig=browse&_coverDate=02%2F28%2F1995&_sk=99539998&_view=c&_wchp=dGLbVlzSkzS&_acct=C000051901&_version=1&_userid=1181656&_md5=fb2777255fba03bc3a3bd39e4cb0fd82&_ie=f.pdf
- P. Keefer and S. Knack 1996 "Institutions and Economic Performance: Cross Country Tests Using Alternative Institutional Measures" *Economics and Politics* 7, (Nov), 207-227
- North, Douglass C. 1981. *Structure and Change in Economic History*. New York: W.W. Norton.
- North 1991 *Institutions, Institutional Change and Economic Performance*
- Janine Aron 2000 "Growth and Institutions: A Review of the Evidence". *World Bank Research Observer* 15 (Feb) 99-135. http://www.worldbank.org/research/journals/wbro/obsfeb00/Article_6.pdf
- Acemoglu, Johnson and Robinson 2001. "The Colonial Origins of Comparative Economic Development: An Empirical Investigation" *AER* 91 (5) 1369-1401.
- Acemoglu, Johnson and Robinson 2001. *Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution* NBER Working Paper 8460.
- Glaeser and Shleifer 2001 *Legal Origins* NBER Working Paper 8272.
- Nathan Nunn 2005) "Slavery, Institutional Development and Long-Run Growth in Africa: 1400-2000"
- Nathan Nunn 2005 "Historical Legacies: A Model Linking Africa's Past to its Current Underdevelopment"
- Herbst, Jeffrey *States and Power in Africa* Princeton: Princeton University Press. See also Review by JA Robinson in *JEL* June 2002 510-519.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny. "The Quality of Government." *Journal of Law, Economics, and Organization*, 15 (1999): 222-79.
- Scott, James. *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*. New Haven: Yale University Press, 1998 (esp. chaps. 6-8).
- Jean-Philippe Platteau. *Institutions, Social Norms, and Economic Development*. Amsterdam: Harwood, 2000 (chaps. 4-5; rest of book recommended).

Task 3 Pick a particular Institution that you think is important for development. Explain its determinants and effects and how this might relate to development. Model this in a way that is not a mere repetition of what others have done. How could your model be tested? Can you provide any evidence for it.

8. Trust , Values, Law and Corruption

a. Values and Trust

- Ronald Inglehart 1997. *Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies*. Princeton: Princeton University Press, Introduction, Chapters 6, 7
- Paul Zak and Stephen Knack "Trust and Growth" *The Economic Journal* Vol. 111 Issue 470 Page 295 April 2001
- Glaeser, Laibson, Scheinkman and Soutter 2000. "Measuring Trust" *QJE* 115, 811-846

La Porta, Rafael., Florencio Lopez de Silanes, Andrei Shleifer and Robert Vishny 1997. "Trust in Large Organizations" *American Economic Review*, 87 (2), 333-338.

b. Law and Finance

Ross Levine, 1999 "Law, Finance and Economic Growth" *Journal of Financial Intermediation*, available on his webpage Ross Levine, University of Minnesota.

*Rafael La Porta, Florencio Lopez-de-Silanes, Andre Shleifer and Robert Vishny 1998, "Law and Finance", *Journal of Political Economy* 106 (6), 1113-1155

<http://www.jstor.org/view/00223808/di000006/00p0044u/0?currentResult=00223808%2bdi000006%2b00p0044u%2b0%2c01%2b19981200%2b9995%2b80018799&searchID=cc993341.10612512640&frame=noframe&sortOrder=SCORE&userID=807db963@usc.edu/01cc9933410050e192c2&dpi=3&viewContent=Article&config=jstor>

Ross Levine 2000. Bank-based or Market Based Financial Systems: Which Is Better? Mimeo.

*D. Berkowitz, K. Pistor and J-F Richard 2003. Economic Development, Legality and the Transplant Effect *European Economic Review* 47, 165-195.

A. Deming-Kunt and R. Levine 2001. Financial Structure and Economic Growth MIT Press, Parts 3, 4, especially Ch 4, 5, 10.

Johnson, La Porta, Lopez-de-Silanes and Shleifer 2000 Tunneling, *AER* May 22-27.

c. Corruption

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<http://www.jstor.org/view/00223808/di980599/98p0067d/0?currentResult=00223808%2bdi980599%2b98p0067d%2b0%2c01%2b19921200%2b9995%2b80078799&searchID=cc993341.10614232180&frame=noframe&sortOrder=SCO RE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- A. Tornell "Reform from Within 1998 Stanford University Center for Economic Policy Research Working Paper No. 20.
- A. Warner "Is Economic Reform Popular at the Polls? Development Discussion Paper no. 598, August 1997.

Brunetti and Weder 1999 More Open Economies Have Better Governments

Task 5: The world is filled with bad policies. Choose a particular regulatory or policy reform that you believe may be beneficial to development. Develop a political economy model that you believe helps explain why that reform may be difficult to bring about but also how it might be brought about in some situations. Also cite at least anecdotal evidence to support your argument including how, why and when it has occurred.

18. Sectoral Models, Planning Models and To Plan or Not To Plan and How?

*a.S and dJ Ch. 1, 2, 7-12

I-O Analysis

DDR Ch1-4

*YN Ch 21

V. Bulmer-Thomas 1982. Input-Output Analysis in Developing Countries. Chichester: Wiley.

LP

*DDR Ch 3

*Nugent, "Linear Programming Models for National Planning: Demonstration of a Testing Procedure," Ec 38 (November 1970), 831-855. <http://www.jstor.org/view/00129682/di952587/95p0204j/0>

17. SAMS and CGEs: Applications to Distribution, Trade and Environment Effects

J. F. Francois and Kenneth Reinert, eds. Applied Methods for Trade Policy Analysis: A Handbook, 1997 Cambridge University Press. Chapters 1, 4, 6, and skim 10, 15, 16

Victor Ginsburgh and Michiel Keyzer The Structure of Applied General Equilibrium Models, MIT Press 1997

DDR Ch 4-13 (r)

Irma Adelman and S. Robinson, Income Distribution Policy in Developing Countries. Stanford: Stanford University Press 1978.

I. Adelman and S. Robinson Macroeconomic Adjustment and Income Distribution: Alternative Models applied to Two Economies JDE 29 (1988) 1-28.

A. de Janvry and E. Sadoulet "Agricultural Price Policy in General Equilibrium Models: Results and Comparisons. AJAE 69 (May 1987) 230-245.(p)

J. Mercenier and T.N. Srinivasan "Introduction to Applied General Equilibrium Analysis and Economic Development"

L. Taylor and F. Lysy "Vanishing Income Redistributions: Keynesian Clues About Model Surprises in the Short Run", JDE 6 (1979) 17-30.

Nugent and Sarma 2002 The Three E's Efficiency, Equity and Environmental Protection – In Search of Win-Win-Win Policies: A CGE Model of India, Journal of Policy Modeling 24 (2002), 19-50.

Ostrom, Schroeder and Wynne Institutional Incentives and Sustainable Development: Infrastructure Policies in Perspective Boulder: Westview (r)

Chakravarti, Datta, Howe, and Nugent Simulating Policy Effects on Sustainable Development in the Forests of Poor Countries

Anthony Scott "Development of Property in the Fishery" Marine Resource Economics 5 1988, 289-311 (p).

K. Anderson and Richard Blackhurst Trade, the Environment and Public Policy (p)

Lee G. Anderson "A Note on Market Power in ITQ Fisheries" Journal of Environmental Economics and Management 21 291-296 (1991) (p)

L. Bergman 1991 "General Equilibrium Effects of Environmental Policy: A CGE Modeling Approach Environmental and Resource Economics 1 43-61. (p)

- T. Panayotou. Green Markets: The Economics of Sustainable Development. San Francisco: ICS Press 1993 (r)
- Tietenberg Environmental and Natural Resource Economics New York: Harper Collins 3rd edition
- D.W. Pearce and J.J. Warford World without End: Economics, Environment and Sustainable Development. Oxford 1993.
- W.S. Misiulek and H.W. Elder 1989. "Exclusionary Manipulation of Markets for Pollution Rights. Journal of Environment and Economic Management 16 (2) 1989, 156-166.
- P. Neher et al. eds. Rights Based Fishing. NATO ASI Series E: Applied Sciences. Dordrecht 1989.
- R.W. Hahn "Market Power and Transferable Property Rights QJE 99 (1984) 753-765.

18. Structural Adjustment and Trade and Industry Reforms

- L.H. Summers and L.H. Pritchett "The Structural Adjustment Debate" AER 83 (May 1993) 383-389.
<http://www.jstor.org/view/00028282/di976318/97p0279p/0?currentResult=00028282%2bdi976318%2b97p0279p%2b0%2c01%2b19930500%2b9995%2b80069499&searchID=8dd55340.10614261480&frame=noframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>
- P. Streeten, "Structural Adjustment: A Survey of Issues and Options", WD 15 (December 1987)
- D. Rodrik, "Trade and Industrial Policy Reform in Developing Countries: A Review of Recent Theory and Evidence" HDE 3 (r)
- V. Corbo and S. Fischer "Structural Adjustment, Stabilization and Policy Reform: Domestic and International Finance" HDE 3 (p)
- S. Edwards, "Disequilibrium and Structural Adjustment" HDE 2, Ch 28 (r)
- L. Taylor, ed. The Rocky Road to Reform , Ch 1, 3.(r)
- A&M Debt Overhang, Stabilization and Growth 12-14 (r)
- I.M.D. Little, R.N. Cooper, W.M. Corden and S. Rajapatirana 1993. Boom, Crisis and Adjustment: Macroeconomic Experience of Developing Countries. New York: Oxford U. Press. (r)
- D. Rodrik "How Should Structural Adjustment Programs be Designed?" WD 18 (7) 1990 933-947 (p)

Task 6. Do a detailed critique of none of the three double-starred() papers by Rodrik in this syllabus. Criticize as much as you can in the paper and suggest why had the paper used different assumptions, data or methodology his conclusions might have been affected.**

Alternative Task:

Do a, b or c. Option c could be done jointly by two students.

(a) Do a benefit cost analysis of an assigned project. Evaluate the project in both private and social terms.

(b) Using the various models to which you have been exposed in this course, design an open economy macro model of a developing country of your choosing (other than your own) which you feel would capture the specific features of that economy and at the same time analyze the effects of specific monetary and fiscal policies. Be sure to distinguish between endogenous and exogenous variables. How and why does it differ from both standard models and other models that may have been constructed for the country you have chosen? Constrain the variable set to variables which are observable so that potentially the model could be estimated empirically.

© Identify a policy issue that can be appropriately addressed with the use of CGE model. Develop a small scale version of such a model and apply it to the issue under investigation.

19. Project Appraisal and Social Cost Benefit Analysis

- Carol Dinwiddy and F. Teal 1996. Principles of Cost Benefit Analysis for Developing Countries. Cambridge: Cambridge U. Press Ch. 5-9, 12, 14.
- Richard O. Zerbe, Jr. and Dwight D. Dively 1994. Benefit-Cost Analysis in Theory and Practice. S. Devarajan, Lyn Squire and S. Suthiwart-Narueput 1997 " On Reorienting Project Appraisal" Research Observer 12 (1) and Hammer and Harberger in the same volume
- Dennis Rondinelli Development Projects as Policy Experiments: An Adaptive Approach to Development Administration. London: Methuen 1983.
- Arnold Harberger Project Evaluation: Collected Papers. Chicago: Markham 1974.(r)

- I.M.D. Little and James Mirrlees *Manual of Industrial Project Analysis in Developing Countries*. Paris: OECD 1969.
- A. C. Harberger "On the Use of Distributional Weights in Social Cost-benefit Analysis, EDCC 32 (April 1984) 455-474.
- *A.C. Harberger 1978 "On the Use of Distributional Weights in Social Cost Benefit Analysis" JPE 86 (April 1978) 87-120. (p) <http://www.jstor.org/view/00223808/di951003/95p0062g/0>
- P. Dasgupta, A. Sen and S. Marglin, *UNIDO Guidelines for Project Evaluation* New York: United Nations 1972
- *YN Ch. 20 (r)
- Lynn Squire "Project Evaluation in Theory and Practice" HDE 2, Ch 21.(r)
- Sugden and Williams, *The Principles of Practical Benefit Cost Analysis*. New York, London: Oxford

20. Some Transition Economy Issues.

- Campos and Coricelli 2002 *Growth in Transition: What We Know, What We Don't and What We Should*, JEL September 793-836.
- Hsiao et al. forthcoming
- Meggison and Netter 2001. *From State to Market: A Survey of Empirical Studies on Privatization* JEL , 39 (2), 321-389.

Some Possible questions for the final exam

Some alternatives for papers 3-5 No more than one of the following

- (a) Based on your understanding of the situation in a particular country, articulate the relationship as best you see it between inequality and growth and provide what evidence you can. Is the relationship positive or negative and what are the most important links? Model this. Which way does the causality go? Why?
- (b) For an individual country of your choice (but not your own) construct a measure of corruption. What forms of corruption are most severe and why? What are the causes of such corruption? Provide a model of corruption that would include at least one policy type variable that could be used to derive implications as to what should be done about it? What could be done to mitigate criticisms of similar measures in the literature?
- (c) Either for an individual developing country over time or for a cross section of such countries, is there a political business cycle? If so, why and what explains it best, if not why not? Why do you think your result differs (if it does) from what has been found for developed countries? Are there political business cycles (PBCs) even if there are no elections? In what way do different rules or governmental structures influence the existence or character of PBCs?
- (d) There is increasing interest in the effects of institutional rules about the way budgets are formed, legislated and implemented on budgetary outcomes, especially the magnitude of fiscal deficits, their variation across the business cycle, the rates of inflation and the adequacy of funding for public infrastructure. For a country of your choice examine and evaluate the effect of any significant change in such institutional rules on budgetary outcomes. Try to rule out (adjust for) the effects of other factors that might affect budgetary performance. Explain success or failure of the institutional change. How might the change be modified so as to make the experience more favorable?
- (e) A major problem in countries going through financial crises has been a high rate of bankruptcies and inefficient judicial or other procedures for handling such cases. Do a comparison of the "before-after" type within a country where the relevant policies and procedures may have changed over time or a comparison across otherwise similar countries (or states within countries) where different procedures are used so as to evaluate the effects of different bankruptcy resolution procedures and hence the possible effectiveness of reforms. Try to rule out the effects of other possible determinants of performance.
- (f) Something of your choosing (but approved by the instructor) dealing with environment
- (g) What are the major differences in the long term determinants of growth across countries? Do these differences require differences in the growth model itself or only in the parameter values.?

VII. Textbooks and Journals

A. Textbooks and Key Reference Books (r=on reserve in Leavey Library; b= in bookstore)

ISBN: 0-691-00677-6
 Title: DEVELOPMENT MACROECONOMICS, 2ND EDITION
 Author: AGENOR AND MONTIEL
 Publisher: Princeton
 Hardcover/Paperback: P
 Required/Optional: R
 Estimated Enrollment: 30

ISBN: 0-393-97745-5
 Title: INTRODUCTION TO ECONOMIC GROWTH, 2ND EDITION
 Author: CHARLES JONES
 Publisher: Norton
 Hardcover/Paperback: P
 Required/Optional: R
 Estimated Enrollment: 30

ISBN: 0-262-05065X
 Title: THE ELUSIVE QUEST FOR GROWTH
 Author: WILLIAM EASTERLY
 Publisher: MIT Press
 Hardcover/Paperback: P
 Required/Optional: O
 Estimated Enrollment: 30

Sachs and Larrain *Macroeconomics in the Global Economy*. Prentice Hall 1993.
 Allan Drazen 2000. *Political Economy in Macroeconomics*. Princeton: Princeton University Press.
 World Bank, *World Development Report* annual Oxford. (r)
 Dervis, De Melo and Robinson, *General Equilibrium Models for Development Policy*. Cambridge :
 Cambridge University Press. (DDR)
 Pan A. Yotopoulos and J.B. Nugent, *Economics of Development*. New York : Harper and Row 1976.
 (YN)
 H. Chenery and T.N. Srinivasan, *Handbook of Development Economics*. Amsterdam: North Holland
 1989 V. 1-3(r) (HDE)
 P-R Agenor and Peter J. Montiel *Development Macroeconomics*. Princeton: Princeton University Press,
 2nd Edition 1999.(A&M) (r, b)
 E. Sadoulet and A. de Janvry *Quantitative Development Policy Analysis*. Baltimore: Johns Hopkins
 University Press 1995. (S and dJ) (r,b)
 Caroline Dinwiddy and Francis Teal *Principles of Cost-Benefit Analysis for Developing Countries*.
 Cambridge: Cambridge University Press 1996.
 Philippe Aghion and Jeffrey G. Williamson. *Growth, Inequality and Globalization*. Cambridge:
 Cambridge U. Press 1998
 World Bank, *The East Asian Miracle* 1993. N. Y., London: Oxford.(r,b)
 E. Ostrom, Schroeder and Wynn eds. *Institutional Incentives and Sustainable Development*. Boulder:
 Westview Press (OSW) (r,b)
 G.M. Meier, ed., *Politics and Policy Making in Developing Countries: Perspectives on the New
 Political Economy*. San Francisco: ICS Press (r,b)
 T. Panayotou. *Green Markets: The Economics of Sustainable Development*. San Francisco: ICS Press
 1993.(r,b)
 Robert J. Barro and Xavier Sala-i-Martin. *Economic Growth*. New York: McGraw-Hill 2004 2nd
 Edition
 (BSM) (r)
 Robert Barro *Determinants of Economic Growth* 1998 MIT Press (b,r)

Lance Taylor, *The Rocky Road to Reform: Adjustment, Income Distribution and Growth in the Developing World*. Cambridge: MIT Press 1993.(r)
 G. Ranis and S.A. Mahmood *The Political Economy of Development Policy Change*. Cambridge: Blackwell 1992 (r)
 Christopheher Clague, ed., *Institutions and Economic Development*, Johns Hopkins (b,r)
 Raghendra Jha *Macroeconomics for Developing Countries*. London: Routledge 1994 (r)

B. Relevant Journals

AER American Economic Review	JDS Journal of Development Studies
JEL Journal of Economic Literature	AJAE American Journal of Agricultural Economics
JME Journal of Monetary Economics	CMJE Cambridge Journal of Economics
JLE Journal of Law and Economics	Ec Econometrica
JPE Journal of Political Economy	OEP Oxford Economic Papers
MS Manchester School	PDR Population and Development Review
QJE Quarterly Journal of Economics	RES Review of Economics and Statistics
WBER World Bank Economic Review	WD World Development
JED Journal of Economic Development	EJ Economic Journal
EDCC Economic Development and Cultural Change	EPW Economic and Political Weekly
JDA Journal of Developing Areas	JDE Journal of Development Economics

C. Useful Data Sources:

World Bank: World Development Reports of various years. World Tables various years and on diskette; Social Development indicators. Available on-line via www.worldbank.org/html/prdmg/grthweb/growth_t.htm, World Bank
 (devdata.worldbank.org/dataonline)

Poverty Data from Xavier Sala-I-Martin *The World Distribution of Income* NBER 8933
 Resources for economists on the internet at: <http://econwpa.wustl.edu/EconFAQ/EconFAQ.htm1>

Penn World Tables version 5.6 for 152 countries on 29 variables 1960-1992 NBER available through the University of Toronto as <http://datacentre.epas.utoronto.ca:5680/pwt/pwt.html>

The Interamerican Bank and The Asian Development Bank also have nice Web sites:
<http://www.iadb.org> and <http://www.asiandevbank.org>

UNDP web site <http://www.undp.org>

Hardcopy yearbooks available in VKC Library:

International Monetary Fund: Yearbook of Government Finance Statistics, Yearbook of International Financial Statistics, International Financial Statistics (monthly), Annual Report on Exchange Restrictions,

United Nations, Yearbook of National Account Statistics

United Nations, Handbook of World Development Statistics (natl. accounts), United Nations Development Programme, Human Development Report

UNIDO, UNCTAD, ILO, FAO and the regional commissions of the United Nations also put out yearbooks and data series of different types