

249 spring 2012
Room SSPA 3218
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Development Economics

The grade for this course will be based on class participation, presentation in the class, occasional problem sets, a referee report, and a term paper.

We will be using bits and pieces of the following books in addition to a whole bunch of papers.

- *Introduction to Modern Economic Growth* (2009, Princeton University Press) by Daron Acemoglu.
- *Development Economics* (1998, Princeton University Press) by Debraj Ray.
- *Economic Growth* (2004, MIT Press) by R. Barro and X. Sala-i-Martin
- *Innovation and Growth in the Global Economy* (1991, MIT Press) by G. Grossman and E. Helpman

1. Introduction to Development Economics

- Ray, Ch. 2.
- Banerjee, Abhijit and Esther Duflo (2006). "The Economic Lives of the Poor," *Journal of Economic Perspectives*, 21(1), 141-167.
- Chen, Shaohua, and Martin Ravallion, "How Have the World's Poorest Fared since the Early 1980s," *The World Bank Research Observer*, vol. 19, no. 2, Fall 2004.
- Banerjee, Abhijit and Esther Duflo. 2011. *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, Public Affairs, New York.

2. Economic Growth and Underdevelopment

2.1 Introduction to Economic Growth

- Grossman G. M. and Helpman E., Ch. 1.
- Barro R. J. and X. Sala-i-Martin, Introduction
- Acemoglu, Ch.1.

2.2. Neo-classical growth theory

- Ray, Ch. 3.
- Acemoglu, Chs. 2 and 8
- Barro and Sala-i-Martin, Ch. 1, Ch. 2.
- Solow R. M., 1956, A contribution to the Theory of Economic Growth, *Quarterly Journal of Economics*, 70:65-94.

2.3. Development Accounting (Growth Empirics)

- Mankiw, N. Gregory, David Romer, David N. Weil, "A Contribution to the Empirics of Economic Growth," *The Quarterly Journal of Economics*, 107(2). (May, 1992), pp. 407-437.
- Jones, C. "On the Evolution of the World Income Distribution." *Journal of Economic Perspectives* v. 11 no. 3, Summer 1997, pp. 19-36.

- Hall, Robert E. and Charles I. Jones (1999), “Why Do Some Countries Produce So Much More Output per Worker Than Others?” *The Quarterly Journal of Economics* 114: 83-116.
- Bosworth, Barry, and Susan M. Collins, “The Empirics of Growth: An Update,” *Brookings Papers on Economic Activity*, 2003: 2.
- Caselli, Francesco, “Accounting for Income Differences Across Countries,” chapter 9 in the *Handbook of Economic Growth* Vol. 1A, P. Aghion and S. Durlauf, eds., North Holland, 2005.
- Weil, David, “Accounting for the Effect of Health on Economic Growth,” *Quarterly Journal of Economics*, 2007.
- Hsieh, Chang-Tai and Peter Klenow, “Relative Prices and Relative Prosperity,” *American Economic Review*, June 2007.
- Easterly, William. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. Cambridge MA: MIT Press, 2001. Chs. 2-3

2.4 Endogenous growth theory (factor accumulation, technological progress)

- Ray, Ch. 4.
- Acemoglu, Chs. 11 and 13
- Barro, R. J. and X. Sala-i-Martin, Ch. 4-7.
- Romer, P., 1986, Increasing Returns and Long-Run Growth, *Journal of Political Economy*, 94:1002-1037.
- Romer, P. "The Origins of Endogenous Growth." *Journal of Economic Perspectives* v. 8, no. 1, Winter 1994, pp. 3-22.
- Rebelo S., 1991, Long Run Policy Analysis and Long Run Growth, *Journal of Political Economy*, 99:500-521.
- Lucas R. E., 1988, On the Mechanics of Economic Development, *Journal of Monetary Economics*, 22:3-42
- Grossman G. M. and Helpman E., Chapters 3 and 4.
- Romer, P., 1990, Endogenous Technological Change, *Journal of Political Economy*, 98:S71-S102.
- Jones, C., 1995, R&D-Based Models of Endogenous Growth, *Journal of Political Economy*, 103, 759-784.
- Jones C., Growth and Ideas. chapter 16 in the *Handbook of Economic Growth* Vol. 1A, P. Aghion and S. Durlauf, eds., North Holland, 2005.

3. Globalization and Development

3.1 Trade and Development

- Ray, Ch. 16-17.
- Acemoglu, Ch. 19.
- Grossman and Helpman, “Technology and Trade”, in *Handbook of International Economics*, vol III, (eds.) Grossman and Rogoff, Elsevier, 1995.
- Grossman and Helpman, *Innovation and Growth in the Global Economy*, MIT Press, 1992.
- Hausmann, Ricardo and Dani Rodrik, “Economic Development as Self-Discovery,” *Journal of Development Economics*, December 2003.
- Hausmann, Ricardo, Jason Hwang, and Dani Rodrik, “What You Export Matters,” *Journal of Economic Growth*, 2007.

- Cadot, Olivier, Céline Carrère, and Vanessa Strauss-Kahn, "Export Diversification: What's behind the Hump?" November 2007.
- Rodriguez, F. and Rodrik, D. "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence." In Ben Bernanke and Kenneth Rogoff eds. *NBER Macroeconomics Annual 2000*. Cambridge, MA: MIT Press, 2001, pp. 261-272, 280-292, 315-318.
- Sachs, J. and Andrew Warner. "Economic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity* v. 1, 1995, pp. 1-64. (online)
- Harrison, Ann and Andres Rodriguez-Clare, "Trade, Foreign Investment and Industrial Policy in Developing Countries," in D. Rodrik and M. Rosenzweig, eds., *Handbook of Development Economics*, vol. 5, North-Holland, 2009.
- Rivera-Batiz, L. and P. Romer. 1991, Economic Integration and Endogenous Growth, *Quarterly Journal of Economics*, 106, 531-556.
- Matsuyama, Kiminori, "Agricultural Productivity, Comparative Advantage, and Economic Growth," *Journal of Economic Theory*, December 1992, 317-334.
- Hsieh, Chang-Tai and Peter J. Klenow, "Misallocation and Manufacturing TFP in China and India," *NBER Working Paper* No. 13290, August 2007.
- Imbs, Jean, and Romain Wacziarg, "Stages of Diversification," *American Economic Review*, 93(1), March 2003, 63-86.
- Ranjan, P. Growth and inequality in closed and open economies: The role of the product cycle, *The B.E. Journal of Economic Analysis & Policy*: Vol. 8 : Iss. 1 (Contributions), Article 36, 2008.
- Frankel, J., and D. Romer. (1999). Does trade cause growth? *American Economic Review* 89(3):379-399.

3.2 Financial Globalization and Development

- Henry, Peter Blair, "Capital Account Liberalization: Theory, Evidence, and Speculation," *Journal of Economic Literature*, 65, December 2007, 887-935.
- Rodrik, Dani. and Arvind Subramanian (2009): Why did financial globalization disappoint? *IMF Staff Papers*, Volume 56, Number 1, March.
- Obstfeld, Maurice. "International Finance and Growth in Developing Countries: What Have We Learned?" *Commission on Growth and Development*, Washington, DC, 2008.
- Kose, M. Ayhan, Eswar Prasad, Kenneth Rogoff and Shang-Jin Wei, "Financial Globalization and Economic Policies," in D. Rodrik and M. Rosenzweig, eds., *Handbook of Development Economics*, vol. 5, North-Holland, 2009.
- Rodrik, Dani. "Growth after the Crisis," September 2009.
- Justin Lin, "Economic Development and Structural Change," Lecture, Cairo University, Cairo, Egypt. November 2009.
- Lucas, Robert. "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review* v. 80 no. 2, May 1990, pp. 92-96.

4. Market Failure/Missing Market and Development

4.1 Externalities and Development

- Ray, Ch. 5.
- Acemoglu, Ch. 21.
- Paul David. "CLIO and the Politics of QWERTY." *American Economic Review* v. 75 no. 2, May 1985, pp. 332-37.
- Murphy, Kevin, Andrei Shleifer and Robert Vishny, "Industrialization and the Big Push." *Journal of Political Economy* v. 97 no. 5, 1989, pp. 1003-1026.

- Banerjee, Abhijit and Esther Duflo (2005) "Growth Theory through the Lens of Development Economics," Chapter 7 in Aghion and Durlauf (eds). *Handbook of Economic Growth*, Volume 1A. Elsevier.
- Mitra, D. and Ranjan, P. "Temporary shocks and offshoring: The roles of external economies and firm heterogeneity" *Journal of Development Economics*, Volume 87, Issue 1, August 2008.
- Azariadis, C. and J. Stachurski. (2005) "Poverty Traps" Chapter 5 in Aghion and Durlauf (eds). *Handbook of Economic Growth*, Volume 1A. Elsevier.

4.2. Credit Constraints, inequality and Development

4.2.1 Macroeconomic implications

- Galor, O. and Zeira, J. (1993). Income distribution and macroeconomics. *Review of Economic Studies*, 60:35
- Banerjee, A. and Newman, A. (1993). Occupational choice and the process of development. *Journal of Political Economy*, 101:274
- Ranjan, P. "Dynamic Evolution of Income Distribution and Credit-Constrained Human Capital Investment in Open Economies", *Journal of International Economics*, 55(2), 329-358, 2001.
- Ranjan, P. "Trade Induced Convergence through Human Capital Accumulation in Credit-Constrained Economies", *Journal of Development Economics*, 72(1), 139-162, October 2003.
- Banerjee, A. and E. Duflo (2003): "Inequality and Growth: What Can the Data Say?" *Journal of Economic Growth*, Vol 8, 267-299.

4.2.2 Microeconomic Implications

- Ranjan, P. An Economic Analysis of Child Labor, *Economics Letters*, Vol. 64, no.1, July 1999.
- Ranjan, P. Credit Constraints and the Phenomenon of Child Labor, *Journal of Development Economics*, 64(1), 81-102, 2001.
- Bacolod, M. and Ranjan, P. Why children work, attend school or stay idle: The roles of ability and household wealth, *Economic Development and Cultural Change*, 56(4), July, 2008.
- Edmonds, Eric V., 2006. "Child labor and schooling responses to anticipated income in South Africa," *Journal of Development Economics*, Elsevier, vol. 81(2), pages 386-414, December.
- Edmonds, Eric V. & Pavcnik, Nina, 2005. "The effect of trade liberalization on child labor," *Journal of International Economics*, Elsevier, vol. 65(2), pages 401-419, March.
- de Mel, S., McKenzie, D. J., and Woodruff, C. (2008). Returns to capital in microenterprises: Evidence from a field experiment. *Quarterly Journal of Economics*, 123(4):1329-1372
- McKenzie, D. J. and Woodruff, C. (2006). Do entry costs provide an empirical basis for poverty traps? Evidence from Mexican microenterprises. *Economic Development and Cultural Change*, 55(1)
- McKenzie, David and Christopher Woodruff. "Experimental Evidence on Returns to Capital and Access to Finance in Mexico, *World Bank Economic Review*, December 2008, Vol. 22(3), pp. 457-482.
- Banerjee, A. and Duflo, E. (2008). Do firms want to borrow more? Testing credit constraints using a directed lending program. Unpub. paper, MIT.
- Visaria, S. (2009). Legal reform and loan repayment: The microeconomic impact of debt recovery tribunals in india. *American Economic Journal: Applied Economics*, 1(3):59-81.

- Ghosh, Parikshit, Dilip Mookherjee and Debraj Ray: "Credit Rationing in Developing Countries: An Overview of the Theory", Chapter 11 in *Readings in the Theory of Economic Development*, edited by D. Mookherjee and D. Ray, London: Blackwell, 2000, pages 383--301.
- Rajan, Raghuram and Luigi Zingales (1998): "Financial Dependence and Growth", *American Economic Review*, 88(3).
- Banerjee, Abhijit, Esther Duflo and Kaivan Munshi (2003): "The (mis)-allocation of capital" *Journal of the European Economic Association, Papers and Proceedings*.

5. Development Strategies

- Acemoglu, Daron, Simon Johnson, and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91, 5, December 2001, 1369-1401.
- Glaeser, E., R. La Porta, and F. Lopez-de-Silanes, and A. Shleifer, "Do Institutions Cause Growth?" *Journal of Economic Growth*, September, 2004.
- Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development" *Journal of Economic Growth*, vol. 9, no.2, June 2004.
- Acemoglu, Daron, Simon Johnson, James A. Robinson, Institutions as a Fundamental Cause of Long-Run Growth, Chapter 6 In: Philippe Aghion and Steven N. Durlauf, Editor(s), *Handbook of Economic Growth*, Elsevier, 2005, Volume 1, Part 1, Pages 385-472.
- Ray, Ch. 16, pp. 621-644, Ch. 17.
- Rodrik, Dani. "Goodbye Washington Consensus, Hello Washington Confusion?" *Journal of Economic Literature*, v. 44, pp. 973-987, 2006.
- Lindauer, David L. and Lant Pritchett. "What's the Big Idea? The Third Generation of Policies for Economic Growth." *Economía*, Fall 2002.
- Rodrik, Dani. "Getting Interventions Right: How South Korea and Taiwan Grew Rich." *Economic Policy* v. 20, April 1995, pp. 55-107.
- Easterly, William, "National Policies and Economic Growth," in P. Aghion and S. Durlauf, eds., *Handbook of Economic Growth*, vol. 1A, North-Holland, Amsterdam, 2005.
- Sachs, Jeffrey D., John W. McArthur, Guido Schmidt-Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye and Gordon McCord "Ending Africa's Poverty Trap," *Brookings Papers on Economic Activity*, Issue 1, 2004.
- Rodrik, Dani, "Growth Strategies," in P. Aghion and S. Durlauf, eds., *Handbook of Economic Growth*, vol. 1A, North-Holland, Amsterdam, 2005.
- Hausmann, Ricardo, Dani Rodrik, and Andres Velasco, "Growth Diagnostics," in J. Stiglitz and N. Serra, eds., *The Washington Consensus Reconsidered: Towards a New Global Governance*, Oxford University Press, New York, 2008.
- Djankov, Simeon, Edward Glaeser, Rafael LaPorta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "The New Comparative Economics," Harvard University, January 2003.
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- Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi, "Governance Matters VI: Governance Indicators for 1996-2006," World Bank, July 2007.