

The George Washington University
Elliott School

Econ 295.10 / CRN 66110

Prof. Norman Hicks

Economics for Development Policy

Wednesday, 5:10 – 7:00

Room: Monroe 451

Course Syllabus

Objectives. This course provides an overview of the theory and practice of economic development, with a focus on issues related to applied economics as it relates to policy making. The course covers causes of underdevelopment, theories of development, the role of government, trade, aid and debt issues. Students should have some basic economic training, such as a one-year Principles of Economics course.

Text: Perkins, Dwight, et. al. *Economics of Development*, 6th edition, (Norton, 2006)

Grading. Midterm exam 1/3rd; exercises 1/3rd, final exam 1/3rd. The student honor code will be rigorously enforced with a zero-tolerance policy toward cheating or plagiarism. Class attendance and participation is expected and will be a factor in grading on the margin.

A number of hands-on exercises will be passed out in class. They are due to be handed in by the next class, and will be the basis of class discussion. They will also be posted on Blackboard.

Note. Any student who feels s/he may need an accommodation based on the impact of a disability should contact Disability Support Services, Marvin Center 242, 994-8250, to have the disability documented and reasonable accommodations coordinated.

Schedule of Classes.

Sept 5. Why Economic Development?

- a. The Nature of the Problem
 - i. Developing countries – characteristics
 - ii. Measuring development – income versus other measures
 1. what is the objective -- Income growth? Welfare? Happiness?
 - iii. Exchange rate conversions and PPP
- b. Development in the Post WWII Era
 - i. The historical context on thinking on economic development; from imperialism/colonialism to bilateral and multilateral foreign aid
 - ii. A brief history of thinking on economic development: vicious circles, low level equilibrium traps, big-push, and take-off models.
 - iii. Balanced vs. unbalanced growth
 - iv. Dualism
 - v. Dependency Theories
 - vi. Singer-Prebisch and the Terms of Trade

Readings: Perkins Chapters 1,2,3

Rosenstein-Rodan “, P.N. “Problems of Industrialization in Eastern and South-Eastern Europe”
Economic Journal (June-September, 1943)

Rostow, W. W. “The Five Stages of Growth: A Summary”, Chapter 2 of *The Stages of Economic Growth: A Non-Communist Manifesto*, (Cambridge, Cambridge U Press, 1960); available at:
<http://www.mtholyoke.edu/acad/intrel/ipe/rostow.htm>

EXERCISE: Analysis of Data on Economic Development

Sept 12. Growth and Development: Theories and Facts

1. Investment-Growth Theories and Their Critics
 - a. Keynes’ influence
 - b. Harrod-Domar Growth Model
 - c. ICORs
 - d. The two-gap model, RMSM
2. Labor and Capital
3. The Lewis model
 - a. Development with Unlimited Supplies of Labor?
4. Solow model – diminishing returns to labor and capital
 - a. Labor and capital saving technical change
5. convergence or divergence?
6. The Easterly critique

Readings: Perkins, Chp 4

Lewis, W. Arthur “Economic Development with Unlimited Supplies of Labor” *Manchester School* (May 1954), available at:

<http://www.uvm.edu/~wgibson/PDF%20Library/Lewis%20Unlimited%20Supplies%20of%20Labor.pdf>

Pritchett, Lant, “Divergence, Big Time” *Journal of Economic Perspectives* Vol II, No. 3(Summer, 1997), pp 3-17.

EXERCISE: Calculating ICORS and Convergence for your countries

Sept 19 – Sources of Growth

1. Growth Accounting – TFP
2. Empirical research on the correlates of growth and productivity
 - vii. Barro
 - viii. Hall/ Jones
 - ix. Pritchett
3. The basics of econometrics in 30 minutes

Barro, Robert “Determinants of Growth: A Cross Country Study” NBER Working Paper 5698, August 1996

Hall, Robert E. and Charles I. Jones. Why Do Some Countries Produce So Much More Output per Worker than Others? NBER Working Paper W6564 June 1999
<http://www.nber.org/papers/w6564>

Pritchett, Lant “The Quest Continues” *Finance and Development*, March 2006.

Morrow, D. “ A Note for the Basic User of Regression Analysis” , unpublished, Oct 2003.

EXERCISE: Running a Regression

Sept 26 -- Agriculture

1. Productivity, Prices and Incomes—and why is there hunger in the world
2. Issues in agriculture—subsistence vs. large scale farming; rural development vs. agricultural progress
3. the reform agenda --
 - a. getting the prices right
 - b. irrigation
 - c. land reform
 - d. credit
 - e. exports of primary products

Readings:

Perkins, Chapter 16, 17

Abler, David “Agriculture in Developing Countries” Penn State University, available at: <http://450.aers.psu.edu/agriculture.cfm>

Diaz-Bonilla, E., S. Robinson et. al. “WTO, Agriculture, and Developing Countries : A Survey” IFPRI TMD Discussion Paper, TMD Discussion Paper No. 81, available at <http://www.ifpri.org/divs/tmd/dp/papers/tmdp81.pdf>

C. Peter Timmer “Agriculture and Pro-Poor Growth” USAID, Washington DC, Pro-Poor Growth Research Studies (July 2003).

Oct 3 Poverty and Inequality

- c. Measuring poverty --The poverty line approach
- d. Absolute and relative poverty measures
- e. Social indicators – the HDI of the UN
- f. Income distribution – measurement issues
 - i. The Kuznets Hypothesis
- g. World trends in income distribution and poverty – are we making progress?
- h. Relationships between growth and income distribution – cause or effect?
- i. Growth vs. Distribution: policies for different countries.
- j. Readings:
 - i. Perkins, Chapter 6
 - ii. Lopez, H. “Pro-Poor, Pro-Growth: Is There a Trade-Off?” *World Bank, unpublished*
 - iii. Dollar, D. and A. Kraay, “Growth is Good for the Poor” *Journal of Economic Growth* 7: 195-225.
 - iv. Hicks, N. and P. Streeten, “Indicators of Development: The Search for a Basic Needs Yardstick”, **World Development** 7 (1979). Reprinted in **Recent Issues in World Development**, Paul Streeten and Richard Jolly eds. (Pergamon Press, 1981).

EXERCISE: Using indicators to construct a composite index of development

Oct 10 Guiding Development – The Role of the Public Sector

1. How much public ownership?
 - v. externalities—positive and negative

1. the prisoner's dilemma and Nash equilibrium
- vi. the role of the public sector
 1. public goods and quasi-public goods
 2. natural monopolies and decreasing cost industries
- vii. privatization of infrastructure and govt. services – good or bad?
- viii. Application to environmental issues: regulation, prohibition and/or marketable permits for pollution

Readings: Perkins Chapters 5, 20.

Antonio Estache, Andres Gomez-Lobo & Danny Leipziger; “Utilities Privatization and the Poor: Lessons and Evidence from Latin America” *World Development* (July, 2001)

Oct 17: The Role of Government --Fiscal Policy

- a. The government budget- capital and recurrent expenditures
 - i. Impact of adjustments and budget cuts
- b. Program budgeting, MTEFs
- c. Results oriented budget formulation --Monitoring and evaluation
- d. Targeted programs vs. general subsidies
- e. Tax policies
 - i. Impact of taxation – deadweight losses
 - ii. Who pays – progressive and regressive taxes
 - iii. Who benefits from Govt. Expenditures?
- f. Project analysis – NPV and IRR concepts
- g. Calculating present value
 - i. Internal rates of return, cost-benefit analysis
- h. Defining the Govt. Investment Program
 - ix. Links to the current budget
 - x. Relations with donors
- k. Governance and corruption—the issues
 - i. Efforts to limit corruption

Perkins: Chp. 12

“Executive Summary”, *Anti-Corruption in Transition: A Contribution to the Policy Debate* (World Bank, November, 2000).

[http://lnweb18.worldbank.org/eca/eca.nsf/Attachments/AnticorruptionSummary/\\$File/summary.pdf](http://lnweb18.worldbank.org/eca/eca.nsf/Attachments/AnticorruptionSummary/$File/summary.pdf)

Hicks, N.L. "Expenditure Reductions in Developing Countries Revisited", **Journal of International Development** 3 (January 1991).

EXERCISE: Net present value and internal rates of return – project analysis

Oct 24. MID-TERM EXAM

Oct 31: Population, Labor Markets

- a. Population
 - i. Population growth—good or bad?
 - ii. Malthus and the Malthusian threat
 - iii. Family planning and population control – the scope for public policy
- b. Employment
 - i. Employment, poverty and government regulation of the labor market
 - ii. Formal vs. informal labor markets

- iii. Impact of government policies – minimum wages, etc.
- c. Safety nets—issues of targeting and incentives
 - i. Unemployment insurance
 - ii. Employment generation programs
 - iii. Feeding programs
 - iv. Conditional grants

Readings:

Perkins, Chapter 7,8

P. Dasgupta, “The Population Problem: Theory and Evidence”, *Journal of Economic Literature* 33(December, 1995).

A.K. Sen “More Than 100 Million Women are Missing”, *New York Review of Books* 37 (December, 1990).

Nov 7 . Industry and Development

- a. Industry as a leading sector
- b. Investment choices
- c. Small scale industry
- d. Import substitution (ISI) – tariff and QR protection
- e. Effective Rates of Protection (ERP)
- f. Outward—looking strategies

Readings: Perkins Chapter 18

Edwards, S. “Openness Productivity and Growth: What Do We Really Know?” NBER Working Paper 5978 March 1997 (also in **Economic Journal** (108), pp. 383-398.)

Nov. 14 Trade and Development

- a. Comparative advantage and the gains from trade
 - a. Ricardo –the classical model of trade
 - b. Hecksher-Ohlin model
 - c. Primary exports as an engine of growth
 - d. Real effective exchange rates – tradeables and non-tradeables
 - e. Customs unions and multilateral trade arrangements – the WTO
 - f. The composition of the balance of payments—goods, services, transfers and capital flows
- Readings: Perkins Chapters 17,19

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EXERCISE: Working through the balance of payments & effective rate of protection

Nov 21. Savings, Inflation and Financial Policy

- a. Savings and Growth
 - i. Rationale for savings
 - ii. Empirical evidence
- b. Money and the financial system
- c. Role of the central bank
- d. Inflation and growth
- e. Regulation of banks and credit markets
- f. Informal markets
 - a. Is micro-finance the answer to world poverty?

Readings: Perkins, chapters 10,13

Edwards, S. “Why Are Savings Rates So Different Across Countries?” NBER Working Paper 5097, April 1995 (also in *Journal of Economic Development* 51 (Oct 1996), 5-44.)

Bruno, Michael and William Easterly, “Inflation Crises and Long-Run Growth” World Bank, Policy Research Working Paper 1517, September 1995.

<http://econ.worldbank.org/external/default/main?menuPK=64166093&pagePK=64165259&piPK=64165421&theSitePK=469382&repNo=WPS1517>.

Goldstein, Morris and Philip Turner, “Banking crises in emerging economies: origins and policy options”, BIS, October, 1996,

<http://www.bis.org/publ/econ46.pdf>

Nov 21 (cont.) Macro management in an Open Economy

- a. Internal and external balance
 - a. Stabilization vs. growth
 - b. Structural Adjustment
 - c. Dutch disease
 - d. The role of the IMF
 - e. The Washington Consensus

Readings:

Perkins, Chp. 21

Williamson, John. “The Washington Consensus and Beyond” (unpublished), and “Did the Washington Consensus Fail?” (2002, unpublished).

Nov 28 Capital Flows, Foreign Aid and Debt

- a. Sources of assistance – private and official flows
 - i. Multinational investment
 - ii. NGOs
- b. Foreign aid
 - i. Forms of aid – projects, programs, technical assistance
 - ii. Aid effectiveness – does aid raise growth?
 - iii. The case for structural adjustment or policy based lending
- c. Debt
 - i. The debt problem and “debt overhang”
 - ii. Debt relief efforts – links to policies, poverty reduction
- d. The World Bank and the IMF

Readings:

Perkins, Chapter 14,15.

Burnside, Craig and D. Dollar, “Aid Policies and Growth” *American Economic Review*, September 2000.

Easterly, W, Levine and Roodman “Aid Policies and Growth: Comment” *AER* June 2004.

Dec 5 Case Study: China: The Three Gorges Dam Project

Class will divide into groups representing either: government of China, international NGOs, World Bank, Chinese NGOs/people of China. Each side will present its case either for or against the project. You will have to do your own research. Some resources are given below:

1. basic info:

- a. official web site, Govt. of China : <http://www.ctgpc.com/>
 - b. http://en.wikipedia.org/wiki/Three_Gorges_Dam
 - c. John Bryan Starr *Understanding China*, Chapter X, , Hill and Wang, New York :2001**
 - d. Deidre Chetham, *Before the Deluge*, Palgrave MacMillan, New York: 2004.**
 - e. Peter Hessler, *River Town: Two Years on the Yangtze*, Harper Collins, New York: 2001, see “Chapter 4: The Dam”
** on course reserve, Gelman Library
2. critique of World Bank:
<http://www.irn.org/programs/threeg/index.php?id=archive/000612.hric.html>
 3. critics of project:
 - a. <http://www.american.edu/ted/3gorges.htm>
 - b. http://www.threegorgesprobe.org/pi/documents/three_gorges/Damming3G/index.html
 - c. <http://www.irn.org/programs/threeg/>

DEC 19 FINAL EXAM

Contacts:

Phone: 703-256-7749, 703-203-4484 (cell)

nhicks4@cox.net

office hours: I available to talk anytime, either by phone or face-to-face. Call me to arrange.

Additional Readings on development you might enjoy:

Thomas L. Friedman, *The World is Flat*, Farrar, Straus and Giroux, New York, 2005.

Jared Diamond, *Guns, Germs and Steel: The Fates of Human Societies*, Norton, New York: 1999.

Sarah Erdman, *Nine Hills to Nambonkaha: Two Years in the Heart of an African Village*, Henry Holt, New York: 2003

Peter Hessler, *River Town: Two Years on the Yangtze*, is worth reading in its entirety.

David Landes, *The Wealth and Poverty of Nations*, Norton, New York: 1998.

William Easterly, *The Elusive Quest for Growth*, MIT Press, Cambridge, Mass.: 2003.