

AAE 731/Econ 877: Economic Development II

Instructor:	Professor Ian Coxhead, coxhead@wisc.edu
Offered:	Fall 2011
Schedule:	MW 9:30-10:45
Location:	B30 Taylor Hall
Credits:	3
Prerequisite:	Grad st in AAE or Econ; AAE635 or equiv. .

Syllabus (updated 10/30/11)

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Introduction

In this course we study economic development phenomena occurring at the scale of the industry, sector, or economy as a whole. Our goal is to understand economic growth and development, and especially its normative (i.e. policy and welfare) implications, in initially poor, sectorally differentiated, and increasingly open economies.

The course begins with a review of 'standard' models of aggregate economic growth, structural change, and the distribution of income, with particular focus on these processes as they occur in small open economies. In the second part, we address international trade and sectoral growth, examining the effects of trade, industrialization and agricultural development on growth and economic structure. Given the dependence of many low-income countries on natural resource exploitation and exports, in this part we devote specific attention to contemporary debates on the so-called "curse" of natural resource wealth in developing economies. The final part of the course will focus on a variety of topics dealing with globalization, development policy, and the impacts of macroeconomic shocks. Topics dealt with in this part of the course will reflect (as best I can) class interests, and will likely be a subset of the following: trade and international factor movements; trade, human capital accumulation and growth; macroeconomic management and adjustment in open economies; consequences of the global financial crisis.

The scope of development economics as a field is vast, so achieving depth requires the sacrifice of some breadth. We focus on analytical general equilibrium models, an approach that yields important insights but which also entails diminished time spent on statistical hypothesis-testing. Empirically, the tradeoff between *ex ante* theory and examination of evidence will be finessed in part by concentrating on theory in class, while providing the opportunity to examine evidence from a developing country or countries through short assignments and a term paper.

I assume familiarity with the dual approach to optimization, especially the derivation and properties of cost and revenue functions. If you need to brush up on these, consult Varian, *Microeconomic Analysis*, or Dixit and Norman, *Theory of International Trade* (1980, Ch. 2). The course makes extensive use of neoclassical trade theory to motivate and construct general equilibrium analytical models. The basics will be covered in class, but if you haven't taken at least an intermediate course in international economics, then it will help to study chapters 1-3 of Feenstra, *Advanced International Trade* (2004).

Ultimately, the only way to acquire familiarity with development economics as a field is to read—a lot. The *Handbook of Development Economics* (4 vols, see syllabus) is a great introduction to the literature, as is the *Handbook of Economic Growth*. These and all other North-Holland handbooks can be accessed electronically through the UW library system. You should also subscribe to both the Development Economics and International Trade series at ssrn.com; this will result in almost daily emails containing titles and abstracts of newly released papers in these fields. [\[top\]](#)

Prerequisites

Graduate standing in either Econ or Agr & Applied Econ. If you are not a Ph.D. student enrolled in either Economics or AAE you must obtain my consent to take the course for credit.

Texts

There is no single required text for the course. If you haven't taken a course in development economics before, Debraj Ray's undergraduate text *Development Economics* (1998) provides definitional 'nuts and bolts' as well as

stimulating discussion of many microeconomic topics. Lectures will draw on a variety of papers, journal articles and excerpts from books, all of which will be assigned at varying levels of 'requiredness' during the semester. Those not readily accessible as electronic documents will be placed on reserve in the AAE Library. [\[top\]](#)

Assessment

Assessment will consist of a mix of short assignments combining written work and class presentations (30%), a substantive midterm homework exercise (20%), general class participation and preparedness (10%), and a research paper, which you will be expected to present in class in the last part of the semester (draft and class presentation 10%, final paper 30%). [\[top\]](#)

Consultation

My formal office hours are Tuesday and Thursday, 11am-12pm in my office (413 Taylor Hall), but if my door is open, I am usually available to answer quick questions at any time. If your question requires more than a simple answer, or if you have more than one question, email me at coxhead@wisc.edu or call (2-6390) to make an appointment. [\[top\]](#)

Policy on Student Concerns/Complaints

Any student who has a concern or complaint specific to an experience in this course should first talk with the instructor. If the solution is still not satisfactory, you should follow the CALS [grievance procedures](#).

Policy on Academic Integrity

"Students are responsible for the honest completion and representation of their work, for the appropriate citation of sources, and for respect of others' academic endeavors. Students who violate these standards must be confronted and must accept the consequences of their actions." (UWS 14.01) If you have any questions about the interpretation of this policy, please see me and/or refer complete [UW statute](#) on academic misconduct.

Students with Disabilities or Special Needs

The [McBurney Disability Resource Center](#), 263-6393, provides academic support services to students with disabilities. Students seeking accommodation should contact the center and request assistance as early as possible, preferably at least eight weeks prior to the date of anticipated need. It is your responsibility to inform me, in a timely manner, of any request for accommodation. [\[top\]](#)

AAE 731: Class schedule and readings

* Denotes primary reading, which I expect you do to *before* the relevant class. Other references are 'recommended' or serve as sources for background/broader reading. I've provided hyperlinks to some; those in major journals are easily accessed online through the UW Library; if you have trouble finding or accessing any reference let me know.

Fun and useful reading - any time

Arndt, H.W. (1985). *Economic Development: The History of an Idea*. (Chicago, IL: Chicago University Press). Surveys the key ideas and debates during the formative years of 'development economics'. A gem. [Chapter 3](#)

Easterly, William (2001): *The Elusive Quest for Growth* (Cambridge, MA: MIT Press). Provocative and personal accounts of growth, aid, and policy reforms.

Helpman, Elhanan (2004). *The Mystery of Economic Growth* (Cambridge, MA: Harvard University Press). Lucid discussion of growth and many related issues.

Ray, Debraj (1998). *Development Economics* (Princeton, NJ: Princeton University Press). Good reference text for concepts, models and debates on growth, poverty, inequality, and factor markets.

Solow, Robert (2000). *Growth Theory: An Exposition*. NY and Oxford, UK: Oxford University Press, 2nd edition.

Various editors and years: *Handbook of Development Economics* (Amsterdam: North-Holland), vols I-4. ([All North-Holland Handbooks of Economics can be accessed online](#)).

Introduction (Sept 7)

McMillan, M., and D. Rodrik. 2011. "[Globalization, structural change and productivity growth](#)." NBER Working Papers No. 17143.

I. GROWTH, TRADE AND DEVELOPMENT

Aggregate growth models and evidence (3 lectures, Sept. 12-19)

Growth models

* Barro, R., and Sala-i-Martin, X. (2004). *Economic Growth*, 2/e (New York: McGraw Hill), [Chapter 1: "Growth models with exogenous savings rates"](#), pp. 61-76, and Ch 4, "[One-sector models of endogenous growth](#)," sections 4.1-4.3.

* Mankiw, N. Gregory; David Romer, and David N. Weil (1992). "[A contribution to the empirics of economic growth](#)", *Quarterly J. Econ.* 107(2), pp.407-438.

* Estevadeordal, A., and A.M. Taylor (2008). "[Is the Washington Consensus dead? Growth, openness, and the great liberalization, 1970s-2000s](#)". NBER Working Paper No. 14264, August.

* Baldwin, R.E. (2003). "[Openness and growth: What's the empirical relationship?](#)" NBER Working Papers No. 9578.

Broader reading:

Aghion, P., and P. Howitt, 1999. *Endogenous Growth Theory* (Cambridge, MA: MIT Press), [Chapter 1](#).

Obstfeld., M and K. Rogoff, 1996. *Foundations of International Macroeconomics* (Cambridge, MA: MIT Press), Ch. 7.

Ray, D. (1998). *Development Economics*, [Chapter 2](#).

Solow, R. (2000). *Growth Theory: An Exposition* (Oxford: OUP), pp.97-186.

Lee, H.Y., L.A. Ricci, and R. Rigobon (2004). "Once again, is openness good for growth?" *Journal of Development Economics* 75: 451-472.

Evidence (not much class treatment)

Levine, R., and D. Renelt (1992), "[A sensitivity analysis of cross-country growth regressions](#)". *American Economic Review* 82(4), September, pp.942-963.

Barro, R., and Sala-i-Martin, X. (2004). *Economic Growth*, 2/e (New York: McGraw Hill), [Chapter 12: "Empirical analysis of a cross section of countries"](#).

Rodriguez, F., and D. Rodrik (1999). "[Trade policy and economic growth: A skeptic's guide to the cross-national evidence](#)", in B. Bernanke and K.S. Rogoff, eds., *NBER Macroeconomics Annual 2000*. Cambridge, MA: MIT Press for NBER: 261-325.

Durlauf et al. (2005), Appendix B to "Growth Econometrics", in P. Aghion and S. Durlauf (eds), *Handbook of Economic Growth* (Amsterdam: North-Holland), vol.1A, pp. 652-663.

Structural change and development (3 lectures + 1 discussion, Sept. 21-Oct. 3)

* Lewis, W. A. (1954). "[Economic development with unlimited supplies of labor](#)", *Manchester School*, May; reprinted in A.N. Agarwala and S.P. Singh, eds (1958): *The Economics of Underdevelopment* (London: OUP), pp.400-435.

* Murphy, K.M; A. Schleifer, and R.W. Vishny (1989). "[Industrialization and the big push](#)", *Journal of Political Economy* 97(5), pp.1003-1026.

* Krugman, P. (1994): "[The fall and rise of development economics](#)", a.k.a. "Toward a counter-counterrevolution in development theory". *Proceedings of the World Bank Annual Conference on Development Economics 1992*, pp.15-38.

* Leamer, Edward E. (1987): "[Paths of development in the 3-factor, n-good general equilibrium model](#)" *Journal of Political Economy* 95(5), pp.961-999.

* Deardorff, Alan (1999): "[Patterns of trade and growth across cones](#)", U. of Michigan School of Public Policy, Research Seminar in International Economics Discussion Paper No. 443.

* Schott, P. (2003). "[One size fits all? Heckscher-Ohlin specialization in global production](#)". *American Economic Review* 93 (3): 686-708

Ventura, Jaume. "[Growth and interdependence](#)." *Quarterly Journal of Economics*, vol. 112, no. 1, February 1997, pp. 57-84.

Broader reading:

Rosenstein-Rodan, P. N. (1943). "[Problems of industrialisation in Eastern and Southeastern Europe](#)," *Economic Journal* 53, pp. 202-211.

Ranis, G. (2003). "[Is dualism worth revisiting?](#)". Yale University, Economic Growth Center Discussion Paper No. 870.

Basu, K. (1997). *Analytical Development Economics* (Cambridge, MA: MIT Press), [Chapter 7](#).

Ray, D. (1998). *Development Economics*, Ch. 5, 10.

Leamer, Edward E. et al. (1999): "[Does natural resource abundance increase Latin American income inequality?](#)" *Journal of Development Economics* 59, pp. 3-42.

Discussion: welfare and distributional implications of growth and structural change

Development in open economies: trade-theoretic approach (6 lectures + 1 disc., Oct. 5-26)

Building blocks: basic trade models and core theorems

- * Feenstra, R. (2004). *Advanced International Trade: Theory and Evidence* (Princeton, NJ: Princeton University Press), [Chapter 1](#), [Chapter 2](#), and [Chapter 3](#)
- * Dixit, A. and V. Norman (1980): *Theory of International Trade* (Cambridge, Cambridge University Press), [Chapter 2](#).
- * Corden, W.M. and P.J. Neary (1982). "[Booming sector and de-industrialization in a small open economy](#)," *Economic Journal* 92, pp. 825-848.
- * van Wijnbergen, S. (1984): "[The Dutch Disease: a disease after all?](#)" *Economic Journal* 94, pp.41-55.
- * Devarajan, S., Lewis, J.D. and Robinson, S. (1993). "[External shocks, purchasing power parity and the equilibrium real exchange rate](#)". *World Bank Economic Review*, 7, 45–63.
- * Warr, P.G. (2006). "[The Gregory Thesis visits the tropics](#)". *The Econ. Record* 82 (257): 177–194.
- * Sachs, J.D. and A.M. Warner (1999). "[The big push, natural resource booms, and growth](#)", *Journal of Development Economics* 59, pp. 43-76.

Broader reading

Bhagwati, J.N.; A. Panagariya, and T. N. Srinivasan. 1998. *Lectures on International Trade*, 2nd edition. Cambridge, MA: MIT Press, [Chapters 7, 9 and 10](#)

Alan Deardorff's [Glossary of Terms in International Economics](#) is a helpful resource for those without prior exposure to basic trade theory

Cassing, J. H. and P.G. Warr (1985). "[The distributional impact of a resource boom](#)," *Journal of International Economics* 15.

Gelb, A. (1986). "Adjustment to windfall gains: a comparative analysis of oil-exporting countries", in J.P. Neary and S. van Wijnbergen, eds: *Natural Resources and the Macroeconomy* (Oxford: Blackwell), pp. 54-91.

Sachs, J.D. and A.M. Warner (2001). "The curse of natural resources", *European Economic Review* 45(4-6): 827-838.

Sala-i-Martin, X., and A. Subramanian (2003). "[Addressing the natural resource curse: an illustration from Nigeria](#)", NBER Working Paper No. 9804.

Hausmann, R. and R. Rigobon (2002). "[An alternative interpretation of the 'resource curse': theory and policy implications](#)", NBER Working Papers No. 9424.

Manzano, O. and R. Rigobon (2001), "[Resource curse or debt overhang?](#)" NBER Working Papers No. 8390.

Discussion: Welfare and methodological implications of Dutch Disease models

Substantive homework exercise: modeling growth in an open, diversified economy

II. INTEGRATION AND FRAGMENTATION

Globalization (2 lectures, Oct. 31-Nov. 2)

- * McMillan, M., and D. Rodrik. 2011. "[Globalization, structural change and productivity growth.](#)" NBER Working Papers No. 17143.
- Harrison, A. (2006). "Globalization and poverty". NBER Working Papers No.12347.
- Winters, L. A. and S. Yusuf (eds.) (2007). *Dancing with the Giants: China, India and the Global Economy* (Washington DC: World Bank), Chapter 1.
- Wood, A. (1997): "[Openness and wage inequality in developing countries: the Latin American challenge to East Asian conventional wisdom](#)", *World Bank Economic Review* 11(1): 33-47.
- Zhu, C., and D. Trefler, 2005. "[Trade and inequality in developing countries: A general equilibrium analysis.](#)" *Journal of International Economics* 65: 21-48
- Dean, J.M., S. Desai, and J. Riedel. 1995. "Trade Policy Reform in Developing Countries Since 1985: A Review of the Evidence." World Bank Discussion Papers No. 267.
- Lin, J.Y., 2011. "From flying geese and leading dragons: new opportunities and strategies for structural transformation in developing countries." World Bank Policy Research Paper No. 5702.

Fragmentation trade and South-South economic integration (2 lectures, Nov. 7-9)

- * Hausman, R., J. Hwang, and D. Rodrik (2007). "[What you export matters.](#)" *Journal of Economic Growth* 12(1): 1-25.
- * Jones, R.W., 2000. *Globalization and the Theory of Input Trade*. Cambridge, MA: MIT Press. Ch. 2.
- Hanson, G., 2010. "[Why isn't Mexico rich?](#)" NBER Working Papers No. 16470.
- Coxhead, I., and M. Li (2008). "[Prospects for skills-based exports in resource-rich developing economies: Indonesia in comparative perspective.](#)" *Bulletin of Indonesian Economic Studies* 44(2): 199-228.
- Coxhead, I., and S. Jayasuriya (2010). "The rise of China and India and the commodity boom: economic and environmental implications for low-income countries". *The World Economy* 33(4), April: 525-551.
- Grossman, G., and E. Rossi-Hansberg (2006). "[The rise of offshoring: it's not wine for cloth any more.](#)" Manuscript, Princeton University.
- Eichengreen, B., and Hui Tong. 2006. "[Fear of China.](#)" *Journal of Asian Economics* 17: 226–240.
- Athukorala, P., and N. Yamashita (2006). "Production fragmentation and trade integration: East Asia in a global context", *North American Journal of Economics and Finance*, 17(3): 233-256

Migration and labor markets (2 lectures, Nov. 14-16)

* Fields, G.S. "[A welfare economic analysis of labor market policies in the Harris-Todaro model](#)". *Journal of Development Economics* 76, no.1 (February 2005):127-46.

* Jalan, J., and M. Ravallion (2002), "[Geographic poverty traps? A micro model of consumption growth in rural China](#)", *Journal of Applied Econometrics* 17(4).

Zhai, F., and T. W. Hertel (2005). "Impacts of the Doha Development Agenda on China: the role of labor markets and complementary education reforms", in T. Hertel and A. Winters, eds, *Poverty & the WTO: Impacts of the Doha Development Agenda* (Washington, DC: World Bank) [Download](#)

Phan, D., and I. Coxhead (2010). "Interprovincial migration and inequality during Vietnam's transition." *Journal of Development Economics* 91(1), January: 100-112.

Discussion: South-South integration and development prospects for low-income economies (Nov. 21)

III. GLOBAL CRISIS AND DEVELOPMENT (4 classes; Nov. 23-Dec. 5)

Content and coverage of these classes will be determined during the semester and will be responsive (up to a point) to the interests of class participants.

Role of international factor flows: migration and remittances, and capital markets

Importing a crisis: external triggers and internal vulnerability

Short-run and long-run consequences of a macroeconomic shock

IV. TERM PAPER PRESENTATIONS (3 classes, Dec. 7-14)

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