

ECONOMIC PROBLEMS OF DEVELOPING AREAS

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Mondays & Wednesdays, 2:30-3:45, Nutritional Science 290

Developing Areas, Less Developed Countries, the Periphery, the Third World, the South, Emerging Markets—each of these conceptually blurry terms evokes regions of the world where living standards are below (often well below) the global average. This course focuses on the changing material living standards of people in these regions.

After an introductory discussion of the relationship between economic growth and other measures of human development, the course will first look at the distribution of income and economic well-being at three levels: Between nations; Between households within nations; and, Between people within households. As a prelude to later course material, we will pay particular attention to concepts and measures of persistent inequality and chronic poverty.

The course will then explore the economics of why some households are able to get ahead as their national economies grow, and while others fall behind. This microeconomic part of the course will focus on the reality of imperfect capital and insurance markets that constrain the ability of low-income and poor households to effectively engage the economy around them and benefit from growth. Particular attention will be paid to how these factors impinge on families' ability to invest in the health and education of their children, and how those decisions shape the persistence of poverty over time. We will look in some detail at two types of interventions meant to break the cycle of poverty, microfinance and conditional cash transfers.

Finally, after a set of lectures on the logic of the liberalization and structural adjustment measures that define economic policy making in most contemporary developing countries, the course will examine both micro and aggregate studies to consider one of the most contentious issues of our day, namely, the relationship between liberalization, globalization, growth and poverty. The course will close with discussion of current policy options, using the World Bank's most recent, and somewhat provocative, statement about policies needed to achieve greater global equity.

A series of four problem sets will be used to reinforce lecture material and engage you with it. The first will use computer simulation to explore the core logic of the theory of growth and the distribution of income between nations. The second problem set will ask you to use longitudinal data on a sample of South African households to calculate measures of inequality, poverty and to explore the persistence of poverty over time. The third problem set will be based on computer simulations designed to bring out some of

the difficulties that poor households face in allocating resources and generating livelihood when they have access to neither insurance nor capital markets. The fourth problem set will invite you to return to the South African data and explore the impact of a cash transfer program on child nutritional status.

To complement the quantitative data and methods of analysis that form the core of this course, you will be asked to read *The Madonna of Excelsior: A Novel* by Zakes Mda. This book provides a challenging perspective on multiple dimensions of social and economic inequality in South Africa, both before and after the fall of apartheid. It is an engaging novel, and is meant to humanize the course's more abstract analysis of the economic realities that confront poor people in low income countries. You will be asked to write a 5 page book review concerning themes in *The Madonna of Excelsior* (more precise instructions will be distributed later in the semester). You will also be asked to write one short (1-2 page) reaction paper at the very beginning of the course as preparation for in-class discussion.

Required Readings

The basic text for this course is Debraj Ray's *Development Economics*. It is denoted as **RAY** in the syllabus below. While somewhat formidable in appearance, this is a masterful text and will be amply supported by the lectures and other readings. The **RAY** text, along with *The Madonna of Excelsior*, is available for purchase at the University Book Store. There is also a xerox packet of required readings (denoted **READING PACKET** in the syllabus). The packet may be purchased at the Underground Textbook Exchange, 664 State Street.

Prerequisites & Discussion Sections

The course formally requires that you have had at least two prior courses in economics. The problem sets will require basic statistical analysis that can be done in excel. Optional discussion sections will be held to teach the computer and statistical skills techniques needed to carry out the problem sets.

Course Web Page & Email

Lecture notes, problem sets, data sets and other material for the course can be found on the course web page: <http://www.aae.wisc.edu/aae474>. An email list will be used to distribute periodic announcements about the course. If you do not regularly read your email, please get in the habit of doing so.

Other Courses of Interest

While every effort will be made to keep the course material grounded in the reality that brings most of us to the study of economic development, discussion of general concepts and issues will often take primacy over discussion of specific national or regional experiences. A number of excellent courses are available that focus on the economics of

specific world regions, including Africa (AAE 477), Latin America (AAE/ECON 462), and East and Southeast Asia (AAE/ECON 473). In addition, the course Growth and Development of Nations in the Global Economy (AAE/IR 374) covers in more detail the trade and national economic growth issues as they apply to both richer and poorer countries.

Course Requirements & Assignment Schedule

Please note that all problem sets and other assignments must be turned at the BEGINNING of class on the indicated due date. Late work will not be accepted.

- (1) Four problem sets, 40% of total grade (10% each);
- (2) Reaction Paper, 3% of total grade;
- (3) Book Review of *The Madonna of Excelsior*, 7% of total grade; and,
- (4) A mid-term and a final exam 50% of total grade (25% each).

<i>Assignment</i>	<i>Date Available</i>	<i>Date Due</i>
Reaction Paper 1: <i>Meaning of Development (Smith, essay 1)</i>	<u>DUE</u> 23 January	
Problem Set 1 <i>Growth, Accumulation and Convergence</i>	25 January	6 February
Problem Set 2 <i>Poverty Dynamics in South Africa, 1993-2004</i>	15 February	27 February
Midterm Review Session, Room TBA	Saturday 4 March, 2 p.m.	
MIDTERM EXAM (in class)	6 March	
Book Review of <i>The Madonna of Excelsior</i>	<u>DUE</u> 22 March	
Problem Set 3 <i>Household Decisionmaking under Risk</i>	29 March	10 April
Problem Set 4: <i>Cash Transfers and Human Capital Accumulation</i>	12 April	19 April
Final Exam Review Session, Room TBA	6 May, 2 p.m.	
FINAL EXAM (summary period)	7 May, 10:05 a.m.	

Optional Discussion Sections

Optional Discussion Sections will be held Thursdays, 5:30-6:30 and Fridays, 1-2 and 2-3 in the computer lab in the basement of Taylor Hall. The schedule is as follows:

<i>Dates</i>	<i>Topic</i>
19/20 January	Functions, Graphs & Other Useful Things
26/27 January	Computer Training for Problem Set 1
16/17 February	Excel for Problem Set 2 & Review Problem Set 1
2/3 March	Review of Problem Set 2 & Midterm Exam
30/31 March	Preparation for Problem Set 3
13/14 April	Preparation for Problem Set 4 & Review Problem Set 3
4/5 May	Review of Problem Set 4 & Final Exam

Office Hours and Contact Information

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SYLLABUS

I. ECONOMIC DEVELOPMENT: THE AVERAGE LEVEL & DISTRIBUTION OF MATERIAL WELL-BEING ... AND WHAT ELSE?

A. *Getting Ahead and Falling Behind, in the Large & in the Small* (18 January)

B. *Concepts and Measures of Economic Development* (23 January)

- **RAY**, sections 2.1- 2.4
- **READING PACKET:** Stephen Smith, “The Meaning of Economic Development: Brazil and Costa Rica,” case study 1 *Case Studies in Economic Development*. (Also posted on the course web page).

****REACTION PAPER ON SMITH CASE STUDY 1**
****DUE MONDAY, 23 JANUARY******

II. ECONOMIC GROWTH AND THE DISTRIBUTION OF INCOME BETWEEN NATIONS

A. *The Limits to Growth through Capital Accumulation* (25-30 January)

- **RAY**, sections 3.1-3.4 and Appendix 3A.1 & 3A.2

B. *Convergence or Divergence* (1February)

- **RAY**, section 3.5

****PROBLEM SET 1 DUE MONDAY, 6 FEBRUARY****

III. THE DISTRIBUTION OF INCOME BETWEEN HOUSEHOLDS: MEANING AND MEASURES OF INEQUALITY AND POVERTY

A. *Concepts & Measures of Inequality* (6-8 February)

- **READING PACKET** *World Development Report 2006*, Chapter 2 “Inequities within Countries: Individuals and Groups” (full report available at <http://siteresources.worldbank.org/INTWDR2006/Resources/477383-1127230817535/082136412X.pdf>)
- **RAY**, chapter 6

B. *Impact of Growth on Inequality* (13 February)

- **RAY**, sections 7.1 & 7.2.1-7.2.3

C. *Concepts and Measures of Poverty* (15-20 February)

- **RAY** sections 8.1-8.3
- **READING PACKET** *Chronic Poverty Report*, Chapter 1 (full report available at http://www.chronicpoverty.org/chronic_poverty_report_2004.htm)

****PROBLEM SET 2 DUE MONDAY, 27 FEBRUARY****

IV. DISTRIBUTION OF INCOME WITHIN HOUSEHOLDS

A. *Intra-household Inequality in the Allocation of Goods (& Bads)* (22-27 February)

- **READING PACKET:** Nancy Folbre (1984). “Household Production in the Philippines: A Non-Neoclassical Approach,” *Economic Development and Cultural Change* 32:303-30.

B. *Understanding Intra-household Inequality* (27 February-1 March)

• **READING PACKET:** Michael Kevane (2004). “Bargaining Power at Home,” Chapter 4 in *Women and Development in Africa: How Gender Works* Lynne Reinner).

• **READING PACKET:** Stephen Smith, “The Many Benefits of educating Girls,” case study 13 *Case Studies in Economic Development*.

****REVIEW SESSION, SATURDAY, 4 MARCH, 2 P.M.****

****MIDTERM EXAM MONDAY, 6 MARCH (IN CLASS)****

V. **MICROFOUNDATIONS OF GROWTH**

A. *Access to Financial Capital & Its Implications* (8-27 March)

1. Non-price Rationing in Credit Markets

• **RAY** 14.1-14.3

2. Unequal Access to Capital and the Reproduction of Inequality

• **RAY** 7.2.8 -7.2.9

****REVIEW OF “MADONNA OF EXCELSIOR” DUE WEDNESDAY, 22 MARCH****

3. Changing the Rules of Access to Capital: Microfinance

• **RAY** 14.5

• **READING PACKET:** Stephen Smith, “*Microfinance—Hope for the Poor: the Grameen Bank of Bangladesh*,” case study 14 in *Case Studies in Economic Development*.

B. *Risk-taking, Investment and Self-insurance in the Face of Missing Markets* (29 March-3 April)

• **RAY**, chapter 15

****PROBLEM SET 3 DUE MONDAY, 10 APRIL****

C. *Human Capital Accumulation and the Reproduction of Poverty* (5-12 April)

1. Human Capital Basics: Education and Health

• **READING PACKET:** Michael Todaro and Stephen Smith, “Human Capital: Education and Health in Economic Development,” chapter 9 in *Economic*

Development (Addison Wesley).

2. Risk and Safety Nets for Human Capital Accumulation

- **READING PACKET** John Hoddinott, “Shocks and their consequences across and within households in rural Zimbabwe,” *Journal of Development Studies* 42(2): 301-321.

3. Cash Transfer Schemes to Break the Cycle of Poverty

- **Reading to be announced**

****PROBLEM SET 4 DUE WEDNESDAY, 19 APRIL****

VI. LIBERALIZATION AND STRUCTURAL ADJUSTMENT (17-19 April)

- **RAY**, chapters 16.2 & 17

VII. GLOBALIZATION, GROWTH AND POVERTY

A. *Microdynamic Studies of Liberalization, Growth and Distribution (24-26 April)*

- **READING PACKET** Michael Carter, Bradford Barham and Dina Mesbah (1996). “Agro-Export Booms and the Rural Poor in Chile, Guatemala and Paraguay,” *Latin American Research Review* 31(1):33-65.
- **READING PACKET** Michael Carter (forthcoming). “Sequencing Micro and Macro Reforms for Pro-Poor Growth: Forward-looking Reflections on the South African Experience,” in V. Padayachee (ed.) *The Development Decade? Economic and Social Change in South Africa, 1994-2004* (Pretoria: HSRC Press).

B. *Aggregate Analysis of Globalization and Poverty (1 May)*

- **READING PACKET** Martin Ravallion. “Growth, Inequality and Poverty: Looking Beyond Averages,” *World Development* 29(1):1803-1816.

C. *Development Policy Prospects (3 May)*

- **READING PACKET** *World Development Report 2006*, Chapter 10, “Achieving Greater Global Equity”

****REVIEW SESSION, SATURDAY, 6 MAY, 2 P.M.****

****FINAL EXAM, SUNDAY, 7 MAY, 10:05 A.M.****