Economics 6397 - Macroeconomics of Development

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Class Structure

This class is for upper level graduate students who have completed all of their first year classes. There are no other direct pre-requisites. The material in this class, though, is complementary to both the micro level development class of Dr. Chinn, and the empirical growth class of Dr. Kalemli-Ozcan. There will be some minimal overlap of material and concepts. There is no textbook for this class, but if you're interested in this area I highly recommend getting a copy of Ray's *Development Economics* as a reference, and David Weil's *Economic Growth* might be useful as review and as an introduction to the material. As being an economist means reading and writing papers, that is what we will do in this class.

Class Mechanics

Class is in McElinney 212 - the conference room. Tuesdays and Thursdays from 11:30 - 1:00pm. Feel free to bring lunch to class.

My office hours (in 201C McElhinney) are on Wednesday's from 2-5pm. You can also e-mail me at devollrath@uh.edu to set up a meeting if those hours don't work for you.

Please show up on time to class. Please leave your phones and pagers and other electronic items OFF. Barring the imminent birth of a child, you can last 1 1/2 hours without checking your messages.

I don't take attendance, but if can't be bothered to show up, don't take the class. At this level of graduate study we are trying to engage in a discussion about current research, and we are trying to avoid me simply lecturing. As part of this, you must read the required material BEFORE class. Come with questions or ideas that came out of the readings.

Class Requirements

There are no tests, so relax. There are three writing assignments and two homeworks (or maybe one). The writing assignments are:

1. A literature face-off. You'll select an existing paper that we discuss in class, and then research competing explanations for what the authors describe. You'll write up a careful comparison of the two (or more) competing explanations, explaining what is the essential difference in

approach. If empirical, you should discuss why differences in samples or methods may have created the difference in explanations.

2. A proposal for your final paper. Due about halfway through class, I will want to see an initial idea for your final paper. This should involve a discussion of the question you want to address, an examination of the existing literature, and your proposed method to attack the question.

3. Your final paper. This should be the start of something you could actually submit and publish. It can be either empirical or theoretical, but if theoretical it must address an existing empirical puzzle that you can offer a contribution to. The subject matter is wide open. I just want you to start writing papers. So if you have a good applied micro idea that comes out of this class discussion, feel free to pursue it.

There is no formal breakdown of how much each part of the course counts towards your grade. First of all, you are in graduate school, and you shouldn't be worrying about your grades. Second, I'll evaluate everyone on their whole body of work (but I am mostly interested in you writing an interesting paper).

Schedule

This is a rough outline of the material to be covered.. The readings expected to be done for each part are noted (see the bibliography for the relevant details for each paper). This is highly subject to change, and is not intended to be a class by class description of what we'll talk about. It's general.

1. Historical Development and the Industrial Revolution: Mokyr (1999), Galor (2006) (Section2).
2. The Agricultural "Push" in the IR: Crafts (1985), Clark (1999)
3. Modelling the Really Long Run: Clark (2005), Galor and Weil (2000)
4. More Long Run Mechanisms: O'Rourke and Williamson (2002), Gollin, Parente, and Rogerson (2004)
5. Growth Empirics: Mankiw, Romer, and Weil (1992), Levine and Renelt (1993), Sala-i-Martin (1995)
6. Accounting Methods: Klenow and Rodriguez-Clare (1998), Caselli (2006)
7. Levels of Development: Easterly and Levine (2003), Acemoglu, Johnson and Robinson (2002)
8. Growth Patterns: Jones and Olken (2006)
9. Dual Economies: Lewis (1954), Temple (2005)
10. Poverty Traps: TBA
11. Bad Institutions: Parente and Prescott, others TBA
12. Imperfections in Education Market: Galor and Zeira (1993)

13. Imperfections in Land Markets: Feder (1985)
14. Inequality and Political Economy: Sokoloff and Engerman (2000), Galor, Moav, and Vollrath (2006)
15. Inequality Empirics: Banerjee and Duflo (2004), Easterly (2006)
16. Land Inequality Empirics: Vollrath (2007)
17. The Resource Curse: TBA

Philosophy

The goal of this course is to review the state of the art in research on the macroeconomic aspects of economic development. Currently, the field of development economics is dominated by the methodology of the applied microeconomics field. However, historically this was not always the case. As economists began to study developing economies during the 1950's and 1960's, they tended to examine them macroeconomically. Thus, the dual economy models of Lewis and Jorgenson, or the migration models of Harris and Todaro, or the structural transformation literature of Chenery et al were all macroeconomic in nature.

As these early development economists dug into the reasons for why development occurred or stalled they found themselves running into microeconomic issues within these countries. Most specifically, the nature of the agricultural sector loomed as the most important aspect of a developing country (despite the importance placed on industrialization by most policy-makers). A combination of research took development economics towards a microeconomic focus. First, T. W. Schultz wrote an incredibly important book that demolished the idea that there was a "peasant mode of agriculture", or that poor agricultural workers were irrational. He showed very clearly that agricultural families were very conciously making optimization decisions about everything. Second, the nature of the agricultural tenure came under scrutiny by Stiglitz and others, who pointed out that sharecropping and rental contracts in developing countries were solutions to problems of informational asymetry and imperfect markets. Combined, this meant that thinking about agriculture, and thus about development, had to focus on the microeconomic aspects of individual choice within these economies.

However, this change in focus during the 1970's and 1980's didn't change the fact that originally development economists were interested in why and how countries developed at all. It is not often that development economists today will relate their findings and research back to the aggregate questions that originally motivated much of their work. So while we now know a very lot (and perhaps too much) about the efficiency effects of sharecropping, we still don't know very much about whether sharecropping is instrumental or incidental in causing a country to develop. We have volumes of microeconomic estimates of how individuals in developing countries respond to the absence of credit markets or insurance markets, but we have very few studies that compare the responses of these individuals to the historical experience of current developed nations. This course is an attempt to think again about the aggregate nature of development, taking into account the vast research we now have on the nature of missing and incomplete markets, as well as the historical experience of the currently rich nations so that we can make some useful comparisons.

The class is structured in three main parts. The first part examines the historical evidence on development and growth, linking together the observations of 1) rising income per capita, 2) declining population growth, and 3) industrialization. Then we look at models that have been developed to try and explain the very existence of developed economies in the first place.

Part two examines the nature of development in the modern or post-war world. We'll look at the empirical evidence we have on growth and development from this era, and see what regularities we can draw from it. Then we will go through some of the theories of development that have dominated discussion of this era: dualism, poverty traps, and institutional failures.

The final part of the class looks specifically at the issue of distribution of resources, and the relationship of distributions to imperfect markets. That is, in the absence of complete markets, factors are no longer efficiently allocated and this means that there are efficiency consequences. We'll examine both theoretical models of these effects, as well as some examples of empirical research that attempts to figure out how important these inefficiencies are.

1 Historical Development

1. Bulmer-Thomas, Victor. 2003. *The Economic History of Latin America Since Independence.* Cambridge University Press.

2. Chenery, Hollis and Moshe Syrquin. 1975. *Patterns of Development, 1950-1970.* Oxford University Press.

3. Chenery, Hollis and Shreman Robinson and Moshe Syrquin. 1986. *Industrialization and Growth: A Comparative Study.* Oxford University Press.

4. Clark, Gregory. 1987. "Why Isn't The Whole World Developed? Lessons from the Cotton Mills," *Journal of Economic History*, 47(1).

5. Coale, A. and R. Treadway. 1986. "A Summary of the changing distribution of overall fertility, marital fertility, and the proportion married in the provinces of Europe," in Coale and Watkins, eds., *The Decline of Fertility in Europe.* Princeton University Press.

6. Crosby, Alfred. 1972. *The Columbian Exchange: Biological and Cultural Consequences of 1492.* Greenwood Press.

7. Diamond, Jared. 1997. *Guns, Germs, and Steel.* W.W. Norton and Co.

8. Jones, Eric. 1981. *The European Miracle: Environments, Economies, and Geopolitics in the History of Europe and Asia.* Cambridge University Press.

9. Landes, David. 1969. *The Unbound Prometheus. Technological Change and Industrial Development in Western Europe from 1750 to the Present.* Cambridge University Press.

10. Livi-Bacci, Masimo. 1997. *A Concise History of World Population.* Blackwell.

11. Maddison, Angus. 2001. *The World Economy: A Millenial Perspective.* OECD.

12. McEvedy, Colin and Richard Jones. 1978. *Atlas of World Population History.* Facts on File.

13. Mokyr, Joel. 1990. *The Lever of Riches: Technological Creativity and Economic Progress.* Oxford University Press.

14. Mokyr, Joel. 1999. *The British Industrial Revolution: An Economic Perspective.* Westview Press.

15. Mokyr, Joel. 2002. *The Gifts of Athena: HIstorical Origins of the Knowledge Economy.* Princeton University Press.

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17. Pomeranz, K. 2000. *The Great Divergence: China, Europe, and the Making of the Modern World Economy.* Princeton University Press.

18. Wrigley, E. and R. Schofield. 1981. *The Population History of England 1541-1871.* Harvard University Press.

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2 Long-Run Growth Models

1. Becker, Gary and Kevin Murphy and Robert Tamura. "Human Capital, Fertility, and Economic Growth," *Journal of Political Economy*, 98(5).

2. Boserup, E. 1965. *The Conditions of Agricultural Progress.* Aldine Publishing Co.

3. Caselli, Francesco and W. John Coleman. 2001. "The U.S. Structural Transformation and Regional Convergence: A Reinterpretation," *Journal of Political Economy*, 109(31).

4. Doepke, Matthias. 2004. "Accounting for the Fertility Decline During the Transition to Growth," *Journal of Economic Growth*, 9(3).

5. Echevarria, Cristina. 1997. "Changes in Sectoral Composition Associated with Economic Growth," *International Economic Review*, 38(2).

6. Ethier, W. 1982. "National and International Returns to Scale in the Modern Theory of International Trade," *American Economic Review*, 72.

7. Galor, Oded. 2006. "From Stagnation to Growth: Unified Growth Theory," in Aghion and Durlauf, eds., *Handbook of Economic Growth.* North Holland.

8. Galor, Oded and Omer Moav. 2002. "Natural Selection and the origin of economic growth," *Quarterly Journal of Economics*, 117.

9. Galor, Oded and David Weil. 1996. "The Gender Gap, Fertility, and Growth," *American Economic Review*, 86.(3).

10. Galor, Oded and David Weil. 1999. "From Malthusian Stagnation to Modern Growth," *American Economic Review*, 89.

11. Galor, Oded and David Weil. 2000. "Population, Technology, and Growth: From Malthusian Stagnation to the Demographic Transition," *American Economic Review*, 90(4).

12. Gollin, Douglas and Stephen Parente and Richard Rogerson. 2002. "The Role of Agriculture in Development," American Economic Review Papers and Proceedings, 92(2).

13. Goodfriend, Marvin and John McDermott. 1995. "Early Development," *American Economic Review*, 85(1).

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17. Kremer, Michael. 1993. "Population Growth and Technological Change: One Million B.C. to 1990," *Quarterly Journal of Economics*, 108(3).

18. Laitner, John. 2000. "Structural Change and Economic Growth," *Review of Economic Studies*, 67.

19. Malthus, Thomas. 1798. *An Essay on the Principle of Population.*

20. Matsuyama, Kiminori. 1992. "Agricultural Productivity, Comparative Advantage, and Economic Growth," *Journal of Economic Theory*, 58(2).

21. O'Rourke, Kevin and Jeffrey Williamson. 2005. "From Malthus to Ohlin: Trade, Industrialization, and Distribution since 1500," *Journal of Economic Growth*, 10(1).

3 Post-War Growth Empirics

1. Acemoglu, Daron and Simon Johnson. 2005. "Unbundling Institutions," *Journal of Political Economy*, 113(5).

2. Acemoglu, Daron and Simon Johnson and James Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5).

3. Acemoglu, Daron and Simon Johnson and James Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics*, 117.

4. Aghion, Phillipe, and Peter Howitt and David Mayer-Foulkes. 2005. "The Effect of Financial Development on Convergence: Theory and Evidence," *Quarterly Journal of Economics*, 120.

5. Alcala, F. and A. Ciccone. 2004. "Trade and Productivity," *Quarterly Journal of Economics*, 119(2).

6. Alesina, A. and A. Devleeschauwer and W. Easterly and S. Kurlat and R. Wacziarg. 2003. "Fractionalization," *Journal of Economic Growth*, 8(2).

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11. Barro, Robert and Xavier Sala-i-Martin. 1992. "Convergence," *Journal of Political Economy*, 100.

12. Beck, Thorsten and Ross Levine and Norman Loayza. 2000. "Finance and the Sources of Growth," *Journal of Financial Economics*, 58.

13. Bernand, A. and C. Jones, 1996. "Comparing Apples to Oranges: Productivity Convergence and Measurement across Industries and Countries," *American Economic Review*, 86(5).

14. Bils, Mark and Peter Klenow. 2000. "Does Schooling Cause Growth?" *American Economic Review*, 90(5).

15. Bloom, David and Jeffrey Sachs. 1998. "Geography, Demography, and Economic Growth in Africa," Working Paper, Harvard Institute for International Development.

16. Bloom, David and D. Canning and J. Sevilla. 2003. "Geography and Poverty Traps," *Journal of Economic Growth*, 8.

17. Caselli, Francesco. 2006. "Accounting for Cross-Country Income Differences," in Aghion and Durlauf, eds., *Handbook of Economic Growth.* North Holland.

18. Caselli, Francesco and G. Esquivel and F. Lefort. 1996. "Reopening the Convergence Debate: A New Look at Cross-country Growth Empirics," *Journal of Economic Growth*, 1(3).

19. Chanda, Areendam and Carl-Johan Dalgaard. 2003. "Dual Economies and International Total Factor Productivity Differences," Working Paper.

20. Cordoba, Juan-Carlos and Marla Ripoll. 2004. "Agriculture, Aggregation, and Development Accounting," Working Paper.

21. Dollar, D. 1992. "Outward-oriented developing economies really do grow more rapidly: Evidence from 95 LDC's, 1976-85," *Economic Development and Cultural Change*, 40.

22. Durlauf, Steven and Danny Quah. 1999. "The New Empirics of Economic Growth," in Taylor and Woodford, eds., *Handbook of Macroeconomics.* North Holland.

23. Durlauf, Steven and Paul Johnson and Jonathan Temple. 2006. "Growth Econometrics," in Aghion and Durlauf, eds., *Handbook of Economic Growth.* North-Holland.

24. Easterly, William and Ross Levine. 1997. "Africa's Growth Tragedy: Policies and Ethnic Divisions," *Quarterly Journal of Economics*, 112(4).

25. Easterly, William and Ross Levine. 2003. "Tropics, Germs, and Crops: How Endowments Influence Economic Development," *Journal of Monetary Economics*, 50(1).

26. Frankel, Jeffrey and David Romer. 1999. "Does Trade Cause Growth?" *American Economic Review*, 89(3).

27. Gallup, John and Jeffrey Sachs and Andrew Mellinger. 1998. "Geography and Economic Development," NBER Working Paper No. 6849.

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29. Hall, Robert and Chad Jones. 1999. "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, 114.

30. Hausmann, Ricardo and Lant Pritchett and Dani Rodrik. 2004. "Growth Accelerations," NBER Working Paper No. 10566.

31. Hsieh, Chang-Tai and Peter Klenow. 2003. "Relative Prices and Relative Prosperity," NBER Working Paper No. 9701.

32. Islam, Nazrul. 1995. "Growth Empirics: A Panel Data Approach," *Quarterly Journal of Economics*, 110(4).

33. Islam, Nazrul. 2003. "What have we learned from the convergence debate?" *Journal of Economic Surveys*, 17.

34. Jones, Benjamin and Benjamin Olken. 2006. "The Anatomy of Start-Stop Growth," Working Paper.

35. Kaufmann, D. and A. Kraay and P. Zoido-Lobaton. 2002. "Governance Matters II - Updated Indicators for 2000/01," World Bank Policy Research Department Working Paper No. 2772.

36. Klenow, Peter and Andres Rodriguez-Clare. 1997. "The Neoclassical Revival in Growth Economics: Has it Gone Too Far?" in Bernanke and Rotemberg, eds., *NBER Macroeconomics Annual 1997*. MIT Press.

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38. La Porta, Rafael and Florencio Lopez-de-Silanes and Andrei Shleifer and Robert Vishny. 1997. "Legal Determinants of External Finance," *Journal of Finance*, 52.

39. La Porta, Rafael and Florencio Lopez-de-Silanes and Andrei Shleifer and Robert Vishny. 1998. "Law and Finance," *Journal of Political Economy*, 106.

40. Levine, Ross. 2006. "Finance and Growth: Theory and Evidence," in Aghion and Durlauf, eds., *Handbook of Economic Growth*. North Holland.

41. Levine, Ross and Thorsten Beck and Norman Loayza. 2000. "Financial Intermediation and Growth: Causality and Causes," *Journal of Monetary Economics*, 46.

42. Levine, Ross and Robert King. 1993. "Finance and Growth: Schumpeter Might be Right," *Quarterly Journal of Economics*, 153.

43. Levine, Ross and David Renelt. 1992. "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review*, 82(4).

44. Levine, Ross and S. Zervos. 1998. "Stock Markets, Banks, and Economic Growth," *American Economic Review*, 88.

45. Mankiw, N. Gregory and David Romer and David Weil. 1992. "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, 107(2).

46. Mauro, P. 1995. "Corruption and Growth," *Quarterly Journal of Economics*, 110(3).

47. McArthur, J. and J. Sachs. 2001. "Institutions and Geography: Comment on AJR," NBER Working Paper No. 7541.

48. Pritchett, Lant. 1997. "Divergence, Big Time," *Journal of Economic Perspectives*, 11(3).

49. Pritchett, Lant. 2000. "Understanding Patterns of Economic Growth: Searching for Hills among Plateaus, Mountains, and Plains," *World Bank Economic Review*, 14(2).

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52. Quah, Danny. 1996a. "Twin Peaks: Growth and Convergence in Models of Distributional Dynamics," *Economic Journal*, 106(127).

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54. Quah, Danny. 1996c. "Convergence Empirics across economies with Some Capital Mobility," *Journal of Economic Growth*, 1(1).

55. Quah, Danny. 1997. "Empirics for Growth and Distribution: Stratification, Polarization, and Convergence Clubs," *Journal of Economic Growth*, 2(1).

56. Rodrik, Dani and Arvind Subramanian and Francesco Trebbi. 2004. "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development," *Journal of Economic Growth*, 9.

57. Sachs, Jeffrey and Andrew Warner. 1995. "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity*, 1.

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4 Development Theories and Evidence

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3. Banerjee, Abhijit and Lakshmi Iyer. 2005. "History, Institutions, and Eocnomic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review*, 95.

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10. Lewis, Arthur. 1954. "Economic Development with Unlimited Supplies of Labor," *The Manchester School*, 22.

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5 Distributions and Development

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6 Inequality Empirics

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