

PRESENTATION OF THE COURSE IN
INTERMEDIATE DEVELOPMENT ECONOMICS
Spring 2009

- * **General and specific aims**
- * **Scope of the course: coverage and exclusions**
- * **Structure of lectures**
- * **Brief presentation of 10 lectures (8 classes)**
- * **Literature and how to read it**
- * **Exam, reception hours, etc**

General aim: To better understand why economic and social conditions in most countries in the world are utterly miserable and what economists think of as the main remedies

Specific aims:

Enhance your understanding of a range of complicated issues that dominate the debates (related to the MDGs) in the **international organisations**, in the **media**, political forum and among **researchers**. Examples:

- a) What is development all about? **Income** growth? **Poverty** alleviation? **Inequality** reduction? Or what?
- b) How does **economic growth** relate to **poverty reduction** and **income distribution**? To improvements in health and?
- c) What are the main **determinants** of economic **growth** in initially poor countries and what are the chief **obstacles**?
- d) What are the necessary preconditions for the alleviation of the extreme **poverty** that plague about one-sixth of world population (the 1st MDG)?

Specific aims (cont'd)

- e) Is **population** growth hindering **economic** growth and **poverty** alleviation?

- f) Can the now poor in **China** and **India** (one-third of world population) produce and consume at Western levels without **depletion** of the world's non-renewable resources (oil, minerals) and intolerable **pollution** of renewable resources (water, air, land)?

- g) Is **globalisation** and increased openness to **trade** a promise or a threat for the well-being of poor people in developing countries?

- h) How do we explain that governments in many developing countries pursue **policies** that are not consistent with economic growth and poverty alleviation? The political economy of development!

Better understanding of complicated issues!

Scope of the course:

The course is *narrow* in some sense, *broad* in another

Narrow:

Main focus is on **long-term macro** issues and the *real economy*

- * Nothing about financial markets, business fluctuations, or **short term** macroeconomic management, etc.

- * Or the **microeconomic** functioning of various markets and sectors. (NB! Course with a focus on “new” micro-economic development will be given at the Master level)

By excluding these and many other areas, the course is “narrow”. In almost all best-selling textbooks on Development Economics, usually with up to 800 pages, a much broader perspective is taken.

Scope of the course (cont'd)

Broad:

* The course covers **10 related topics**, all within the sub-field of **long-term macro development economics**. What is contained in each of these 10 lectures is a “specialised topic”, in which many individual economists have worked and become experts.

* Extreme **specialisation** in research in recent years. The lectures here can only give you bits and pieces of what is going on within the different “specialised areas”— far from exhaustive!

* Dozens of book and hundreds of articles on **each** of the 10 topics

Unorthodox course?

1) Many of the issues covered in this course are **not found** in most standard text-books on Economic Development, or are very marginally treated.

2) The course will present theoretical insights and empirical findings on **what we know**, but also what we **do not know** regarding the issues in focus. In most text-books, controversies and “black holes” in our knowledge are usually left aside.

3) In many instances, different theories or models give different (or contradictory) predictions for what determines a certain outcome (e.g. growth). This means that in the end, there is an empirical problem to be resolved. We will highlight the many **data and methodological problems one** faces in tackling these empirical issues.

Structure of lectures

- 1) Presentation of stylised facts that highlights the importance of the issue and the scope and challenges for improvements**

- 2) Presentation of the main theories in the field and, when appropriate, analyse why they are conflicting**

- 3) Presentation of main empirical findings and a critical assessment of these**

- 4) Stress that in most instances, there is reverse causality, i.e. the supposedly “independent” variables are affected by the outcome variable, or both are endogenous (affected by a “third” left-out variable (calls for instrument variables)**

- 5) Summary of what we know and do not know — and what the main challenges are for further research.**

Plan of lectures and main contents

Lecture 1: Basic issues and questions (Q):

1) How do we define and measure development?!

What are the outcome variables of concern?

- Income growth? - Poverty alleviation? - Reduction of income inequality? - Other objectives?

2) **How are these inter-related objectives obtained?**

- Is economic growth **necessary** and/or **sufficient** for attaining the other objectives?

In this first lecture, I also present various economic and other statistical indicators of the “**present state**” of the developing world — in a brief recent history perspective.

I further present a number of rough calculations indicating what it would take to seriously **reduce poverty** in the now poorest countries and to accomplish a more even **income distribution** world-wide.

Lecture 2. Two most revered early development models

- 1) The **Harrod-Domar** growth model and the vicious circle of poverty

- 2) The **Lewis** model of industrialisation in agricultural economies with "unlimited supply of labour"

Why study old models from the 1950s?

- a) Have had an enormous **impact** on the actual policies followed by most developing countries up the present

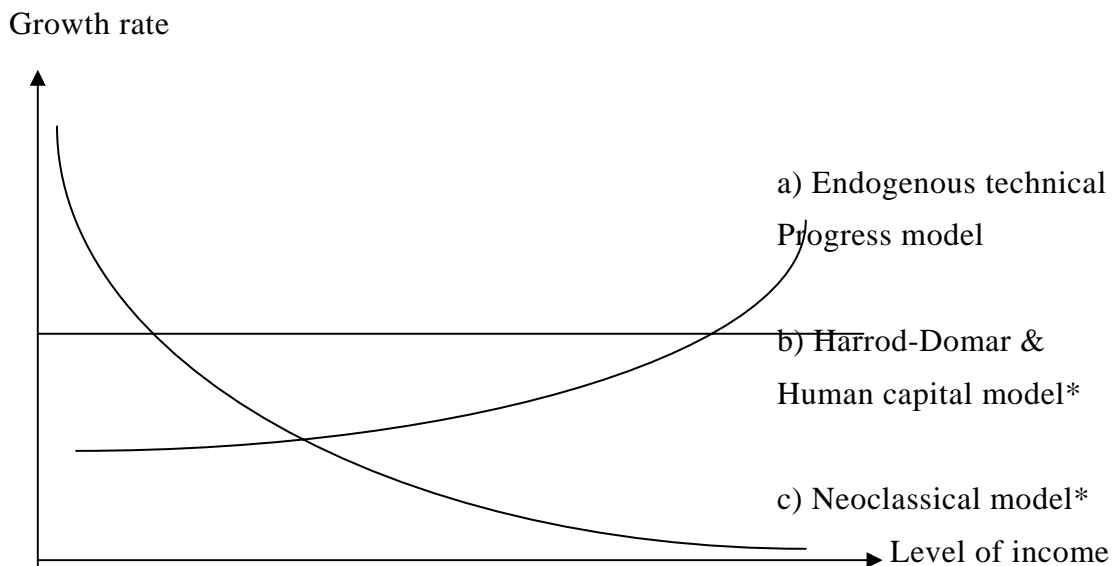
- b) Still of **relevance** according to many economists and policy makers, not the least for **China**, the fastest growing economy in the world for 25 years now. Un almost unlimited number of **rural** "redundant" migrant workers – between 100 and 150 million - make up about half the **urban** labour force that account for the high growth in **domestic sectors** (construction, infrastructure) and in the labour-intensive **export sector**. This is precisely what the **Lewis model** is all about – migration out of agriculture!

H-D model is still the theoretical underpinning for foreign aid!

Lecture 3. Development and growth theories

Neo-classical and “new” endogenous growth models — of relevance for development?

In the presentation of the models, the main focus will be on (1) the basic **determinants** of growth and (2) whether the models predict **convergence** or **divergence** in growth rates in the long run.



- a) Growth tends to **accelerate** due to economies of scale \Rightarrow initial income gaps between countries will grow indefinitely
- b) Growth is **unrelated** to income level \Rightarrow constant income gaps
- c) Growth tends to **peter out** at higher income levels \Rightarrow initial income gaps between countries will close in the long term

Lecture 4: Growth empirics (lec 3 and 4 covered jointly)

Since various growth models predict different growth paths, it is mainly an empirical matter to find out to what extent **divergence** or **convergence** has actually taken place. And also to identify the main **driving forces** of growth.

Discuss results and the **pros** and **cons** with different empirical methods and what specific questions they are suited for:

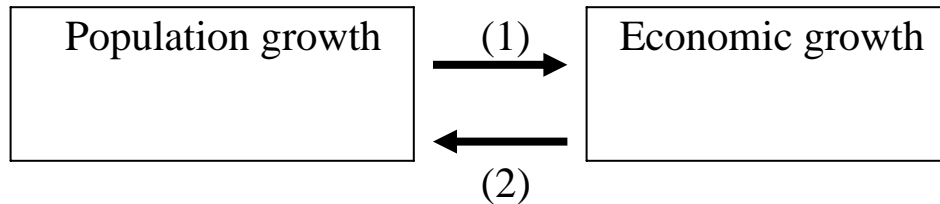
- 1) **Cross-country**
- 2) **Panel** regressions;
- 3) **Time series** regressions;
- 4) Growth **accounting**;
- 5) **Country** studies

The country study will focus on **China**, *the* “economic miracle” of our time, with 1,300 million people and almost 10% annual economic growth since 1980—implying a **six-fold increase in per-capita real income!** Is such a miracle possible in a largely state-run economy, with many characteristics that modern growth theory says are incompatible with high growth?

Or is the explanation simply that data are **flawed**? Maddison 2008!

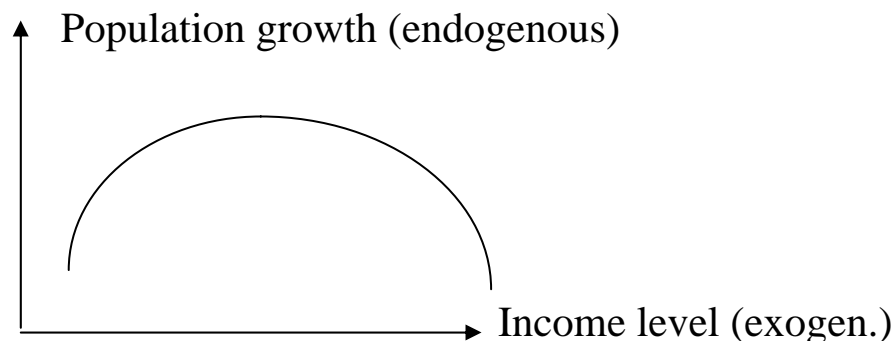
Lecture 5: Population growth and economic growth

Theory and empirical evidence on the two-way relationship:



(1) There are various theories predicting that high population growth is **detrimental** for economic growth, while others predict a positive or neutral effect \Rightarrow **Empirical question!**

(2) That economic growth affects population growth in accordance with the **demographic transition theory** is not very controversial; the main question is how **stable** and **strong** this relationship is.



There has been a drastic decline in world population growth, from 2.1% in 1970s to 1.2% now. Beneficial economic growth effects?

Lecture 6. Environmental consequences of growth

If present trends in **economic** and **population growth** continue for another 30 years, the level of economic production (**GDP**) in the world in 2040 will be about **4 times** the present one.

Main question: would that be environmentally sustainable?

- 1) Would it mean **depletion** of important **non-renewable resources** (oil, minerals) and drastically increased **pollution** of **renewable** resources (air, water, land)?

- 2) How strong are the links between economic activity, fossil energy use, and **climate change**? Some economists have argued that:
 - a) Are the projected emissions of **green-house gases** by the UN International Panel of Climate Change (IPCC 2007) upward biased because of **flawed economic analysis**?

 - b) Are the **costs of reducing** emissions (e.g. lower production) **higher** than the costs of the negative effects of **continued** global warming?

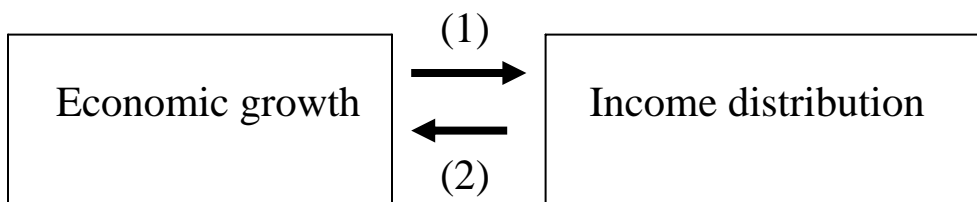
Lecture 7. Income distribution and growth

1) In this lecture, we shift the attention to **income distribution** as the **objective variable** for development.

Starts with some measures of income distribution and stylised facts on distribution:

- **within** developing countries
- **across** all countries
- changes over **time**

There are several reasons to expect that there are (1) causal linkages from growth to income distribution, but also in the opposite direction, i.e. (2) that initial income distribution in countries has a bearing on subsequent growth.



The main **theories** and **empirical** findings are presented in this lecture, and also the main estimation and data problems

Lecture 8: Poverty alleviation and growth

In recent years, poverty alleviation has emerged as the prime internationally endorsed development objective—the overriding **Millennium Development Goal (MDG)** is to reduce by half the incidence of world poverty by year 2015.

Two main questions will be in focus here:

1) What are the determinants of poverty reduction in a country?

- a) **Income growth**
- b) **Initial income distribution**
- c) **Population growth**

2) Why do **different estimates** of the prevalence of **poverty**—as measured by the share of the population with an income of less than \$1 a day—**differ widely** both for levels and trends.

* The World Bank's estimates suggest that some 20% of the population in developing countries live in poverty and that the decline has been **minuscule** over the 1990s.

* Others say 5% and a **drastic reduction** over time.

How will the World Bank's recent (2007) scaling down of GNI/c in China and India by some 40%, affect poverty estimations?

Lecture 9. Globalisation and the role of trade, protection, and openness for development

- 1) Gains from trade and costs of protection in **static models** with:
 - a) **Constant** returns to scale
 - b) **Increasing** returns to scale

- 2) Elements of **New Trade-cum-Growth** models

- 3) Problems with **measuring** openness and trade regime

- 4) The **empirical evidence** on the role of trade regime (openness) for **economic growth**

- 5) Do more open trade regimes benefit the **poorest population segments** in countries?

- 6) Is **foreign aid** a substitute or supplement for trade?
What is the evidence on foreign aid contributing to growth, democratisation and wellbeing in the recipient countries?
Can aid have detrimental effects on important objectives?

Lecture 10: The political economy of development

Most development economists would probably be able to agree on half a dozen economic policies that are **necessary** for a country to accomplish economic **growth** and **poverty alleviation**. Yet there are some 40-60 countries where these policies are not pursued, and which have had no notable growth for decades. Why?

- 1) The government is lead by a **dictator** whose objective is not to accomplish growth, but to **enrich** himself and his supporters?
- 2) The **institutions** that many countries are endowed with are, for historical and other reasons, not conducive for fostering growth?
- 3) The country is too **fractionalised** in terms of ethnicity, cultural heritage, religion and languages for policy makers to be able to reach any sort of consensus on growth-friendly economic policies?
- 4) **Corruption** has reached such level that large-scale private economic activities are too costly and risky to be undertaken?
- 5) Governments generally want to accomplish growth, but are **ill informed** about how, and need (ask for) advise?

Literature:

Some 20-25 pages of notes for each lecture, building on a large number of journal articles, will be the main reading requirement. Most of the articles can be downloaded by students from JSTORE.

I have chosen **not to** use a standard **text-book** even though I know that students often prefer to have one. The reason is simply that I have not found a good book that covers the topics that are of prime concern to me.

The text-book that comes the closest is D. Raj, *Economic Development*, Princeton University Press, 1998. However, the book is rather dated by now and I only cover a few sections in it. There is hence no urgent need to buy it (also expensive).

At the end of each lecture, you will find a rather long reading list, sub-divided in 3 parts:

- 1) Articles that I strongly recommend you to read.
- 2) Articles referred to in the lectures.
- 3) Additional articles for those with a special interest in the issue covered in the lecture.

How to read the literature? Some advice:

- * The course is not very demanding in terms of understanding complicated mathematical models, but it covers a lot of material and there is no text-book. Attending class is hence recommended.

- * A basic grasp of simple econometrics (e.g. multiple regression analysis) is **absolutely essential** for being able to understand the empirical results discussed in some of the lectures.

- * The course is held in English, which some may find problematic, but this is to enable ERASMUS and other non-Swedish students to follow the course. Take it as an opportunity to improve your English; could be rewarding in the long term!

Office reception hours (to be decided later)

In case there are problems with understanding the **lecture notes**, consult **fellow students**, or come to see me during office **reception hours** (room A808).

The exam:

Ordinary **questions and answers** to check that you have read the texts and understood them. Towards the end of the course, I will distribute **examples** of questions, some of which will be included in the exam.