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ECON 312-01, Economics of Development, Spring 2006

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Authors	Gramm, Teresa B.
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Economics of Development

Spring 2006 Course Syllabus

Instructor: Teresa Beckham Gramm

Office: 319 Buckman

Phone: 843-3853

Email: beckham@rhodes.edu

Office Hours: T TH 9:00-10:00, W 3:00-4:00, and by appointment.

Text: *Economics of Development, 5th edition.* Perkins, Radelet, Snodgrass, Gillis, Romer.

Course Objective: This course focuses on the scope and causes of international inequality, particularly the nature of the economic problems facing the world's poorer countries. Particular emphasis will be given to the countries of the African, South American, and Asian continents. The main emphasis will be on analytical modeling. While I will often use specific data and cases studies to motivate the models, a thorough empirical history of economic development is not the central focus of the course.

Theories of growth and inequality, uneven development, and the roles of schooling, foreign trade, agriculture, manufacturing, fertility, migration, finance, and the environment in the development process will be considered.

Course Grades: will be based on the weighted average of the following and attendance, Exam I (20%), Exam II (20%), Exam III (25%) Homework/Graded Assignments (10%), Country Report (10%), Country Economic Memorandum (15%)

Grades will be assigned according to the following scale,

93-100% = A	80-82% = B-	67-69% = D+
90-92% = A-	77-79% = C+	63-66% = D
87-89% = B+	73-76% = C	60-62% = D-
83-86% = B	70-72% = C-	59 or below = F

Exams: There are two exams and a final. The first is tentatively scheduled for 2/17. The second is scheduled for 3/29. I reserve the right to change the exam date, but will give you at least 1 week notice of any changes. The final will be during the final exam period at 8:30am on May 3. If you are going to miss an exam you must let me know IN ADVANCE, otherwise there will be no make-up exam and the missed weight will go into a specially designed cumulative final.

Assignments: There are two types of assignment.

1) *PROBLEM SETS* will be distributed periodically through the semester. The frequency will depend in part on whether the material lends itself to “problems.” One problem set will require you to gather data and compose a “Country Factsheet” on the country of your choice. This particular problem set will be due on 2/3. All work is due at the beginning of class. If you turn a problem set in late you will be penalized 5 points per day.

2) *PAPERS* will be due on two different occasions. A 5-page Country Report is due on 3/3 and a 10-page Country Economic Memorandum will be due on 4/7. Explicit details about my expectations for these two assignments will be forthcoming at the beginning of February. For both of these papers, you will be given an opportunity to revise and resubmit “**R**” any work earning lower than a B on the first draft. A revised paper cannot receive better than a B for the final grade. Papers may be turned in early, but any late papers will be penalized one letter grade a day. Late papers may not receive the “**R**” grade.

Attendance Policy: There is no explicit attendance policy. However, I do not repeat lectures during office hours for the benefit of those who missed the regular lecture. I do not “help” people on problems if their lack of understanding is due to missing class.

Academic Dishonesty: Any evidence of academic dishonesty may result in your failure of this course. Academic dishonesty includes (1) using exams from previous semesters, (2) using problems from previous semesters, (3) working together on exams, or (4) copying (or allowing someone else to copy) any work that is turned in for a grade. You *may* discuss approaches to solving the homework problems, but when it comes time to put pen to paper, the work must be entirely your own.

Office Hours: My office is 319 Buckman. I have scheduled office hours for W 3-4 and TTH 9-10. I strongly encourage you to make an appointment if you have conflicts with these times. The best way to schedule an appointment with me (or contact me for any reason) is by email: beckham@rhodes.edu.

Email: I assume you check your email at least once a day. I will use it to convey required reading in various periodicals which we will be going over during the next class period. I will not send you “junk” or “FYI” or “Here’s a nifty article in case you have a free hour”...it will always be pertinent to material you need for class.

Topics and readings:

The readings will be assigned before each lecture. They are given on the lecture handouts mentioned above if you want to read more than a week ahead.

The topics are given in the accompanying outline (which will also match the outline on the lecture handouts). **THE OUTLINE IS SUBJECT TO CHANGE, BUT I WILL WARN YOU IN ADVANCE.**

Economics of Development Spring 2006 Lecture Outline

- I. INTRO
 - A) What does Dev. study?
 - B) Why study Dev.?

- II. HISTORICAL OVERVIEW
 - A) Initial Terminology
 - B) 7 Themes (Differences & Similarities across LDC'S)
 - C) Substitution

- III. GROWTH THEORIES
 - A) Intro
 - B) Growth Model Foundations: The Basic Model
 - C) Harrod-Domar / Fixed – Coefficient Model
 - 1) Isoquants
 - 2) Fixed – Coef. Isoquant
 - 3) ICOR
 - 4) Growth
 - 5) Policy Implications
 - 6) Does model work in real world?

 - D) Solow / Neoclassical Model
 - 1) Isoquants
 - 2) Rewriting Basic Model Equations in Per Capita Terms
 - 3) Graphical Presentation
 - 4) Changes in saving & population growth rates.
 - 5) Technological Advances

 - E) Empirical Implementation
 - 1) Convergence
 - 2) Multivariate Regression Analysis of Growth (“Mauritius A Case Study” article)
 - 3) Estimating Solow / Growth Accounting

- IV. STRUCTURAL CHANGE: 2 SECTOR MODELS
 - A) Intro
 - B) Fei – Ranis Two – Sector Model
 - 1) Agricultural Production Function
 - 2) MP_L in Ag
 - 3) Supply curve of labor for Industry
 - 4) Labor demand curve for Industry
 - 5) Eq. In Industrial labor market
 - 6) Putting the two sectors together (“Boosting Agricultural Yields” article)

- C) Neoclassical 2 – sector model
- D) Balanced vs Unbalanced Growth
 - 1) Intro
 - 2) Balanced Growth / Big Push
 - 3) Unbalanced Growth
 - 4) Policy Prescriptions

V. INCOME DISTRIBUTION

- A) Why it matters
- B) Measuring Income distribution
 - 1) Gini coefficient & Lorenz curve
 - 2) Quartile / Quintile
 - 3) Identifying poverty
 - 4) Indices
- C) Theories of income distribution and growth
 - 1) Ricardo
 - 2) Marx
 - 3) Neoclassical
 - 4) Lewis

VI. MARKET VS. COMMAND ECONOMICS

- A) Intro
- B) Problems with Markets
- C) Command Economics
- D) Transition to Markets
 - 1) Necessary conditions
 - 2) Stable Macro economy / Stable Prices
 - 3) Market Pricing and Allocation

VII. Externalities and Resource Depletion (Chapter 6)

- A) Intro
- B) Market failures and unsustainable development
 - 1) Tragedy of the commons
 - 2) Externalities
- C) Sustainability Model
 - 1) Basic Fishery Model
 - 2) Assumptions of the model
 - 3) Results/Predictions of the model
- D) Time Value of Money and resource overuse
 - 1) Definition of TVM
 - 2) Review of discount rates
 - 3) Comparing MNB across years
 - 4) Application to renewable resources
- E) Policy Options
 - 1) Introduction
 - 2) Property Rights
 - 3) Quantity limits
 - 4) Taxation/subsidization
 - 5) Marketable Permits
 - 6) Creation of new markets (labeling) and removal of distortionary policy

VIII. Labor

- A) Population Growth/Fertility (Chapter 7)
 - 1) Intro
 - 2) Malthus and the Dismal Science
 - 3) Gary Becker and cost-benefit analysis of fertility
 - 4) Policy options
- B) Labor Productivity (Chapter 8, pp. 282-305)
 - 1) Intro
 - 2) Low wages and segmented labor markets—ex. 3 labor markets

- 3) Labor reallocation (rural/agricultural to urban/industry)—ex. Harris-Todaro model
 - 4) Labor absorption—ex. Job creation
 - C) Employment Policy (Chapter 8, pp. 306-318)
 - 1) Encouraging Industry
 - 2) Remove/Correct factor price distortions (example w/ isoquants)
 - D) Education (Chapter 9)
 - 1) Intro
 - 2) Cost-Benefit analysis of education
- IX. Capital
 - A) Intro
 - B) Types of investment
 - C) Savings—Domestic
 - D) Savings—Foreign
 - 1) Intro
 - 2) Types of Foreign Aid
 - 3) The IMF and World Bank
- X. Government Spending
 - A) Intro
 - B) Government consumption vs gov't investment
 - 1) Recurrent expenditures
 - 2) Choosing between investment projects
 - 1. Project Appraisal
 - 2. Opportunity Costs
 - 3. Shadow Prices
 - 4. Difficulties
- XI. Financial Policy
 - A) Intro
 - B) Inflation as a means of inducing savings
 - 1) Definitions
 - 2) Causes of high inflation
 - 3) Reminder: Nominal vs real interest rate
 - 4) Inflation as taxation
 - C) Financial Development
 - 1) Intro to “shallow finance”
 - 2) Why underdeveloped?
 - 3) Policies to encourage financial development
 - D) Informal Financial Markets and Microlending
 - 1) Informal Markets
 - 2) Microlending
- XII. Private Foreign Capital Flows
 - A) Intro
 - B) Foreign Direct Investment
 - 1) Intro
 - 2) Types of FDI in LDC's
 - 3) Benefits & Costs to the host country
 - 4) Policy Implications
 - C) Foreign Debt
 - 1) Intro
 - 2) Commercial Bank Lending
 - 3) Deciding to borrow/lend
 - 4) 1980's Debt Crisis...did we learn?
 - 5) HIPC's
 - D) Foreign K Flows and Financial Crises
 - 1) Intro: Overview of a few financial crises
 - 2) Causes...Generalities
 - 1. What did they all have in common?
 - 2. Problem w/ fixed exchange rates
 - 3. Volatile short-term K flows