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ECON 312-01, Economics of Development, Spring 2009

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ECON 312--Economics of Development

Spring 2009 Course Syllabus

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Office Hours: T TH 9:30-10:30, MW 12:00-12:30, and by appointment.

Texts: *Economics of Development, 6th edition.* Perkins, Radelet, and Lindauer.

The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics. William Easterly.

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. The goal of the course is to promote understanding of these economic models and to train you to apply the models in the contexts of developing economies. Readings, class lectures, problem sets, exams and research papers will be the tools used to meet these goals.

Furthermore, this course is a writing-intensive course. As outlined below, a significant portion of your grade is based on your performance on various writing assignments. Instruction will be given on proper writing in the Economics field, where the emphasis is on concise presentation of accurate and complete material. Development Economics topics are subject to much polemic. Much of learning to write in the field is honing the ability to critique others' assertions and offer policy prescriptions based on models and evidence/data, not opinion and politics.

According to the stated expectations of the Faculty Curriculum Committee, skills that I expect you have learned and will further develop in this class are:

- Planning and organizing a coherent, well-supported argument with a clear thesis.
- Supporting the thesis with unified paragraphs that are clearly related and substantially developed. Developing a polished, rational, evidenced argument.
- Expressing complex ideas in clear and effective prose that has been carefully edited and proofread.

Skills that I anticipate will need particular training in the context of Development Economics are:

- Assessing fairly the arguments of others and developing a critical/analytical response to a written text.
- Distinguishing between kinds of evidence and selecting evidence that is relevant, sufficiently detailed, and substantial.

- Summarizing, extrapolating, and synthesizing material from a variety of sources, giving adequate and accurate documentation.

Class time will be devoted to teaching the following topics related to writing the papers:

- Finding data
- Writing Economic history papers
- Writing analytical papers (applying models of Development Economics)
- Writing papers of policy prescriptions.

Course Grades: will be based on the weighted average of the following, Exam I (25%), Exam II (25%), Written Problems, Country Facts and Paper Outline (5%), Country Report (15%), Country Economic Memorandum (15%), Country Policy Prescriptions Paper (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

Papers: There will be three primary writing assignments of approximately 7 pages each. You will choose a developing country about which you will become an expert over the course of the semester. For the first two 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 will receive the average of the preliminary and revision grade 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.

1) Country Report due 2/23: background paper on the economic conditions and “issues” for your country.

Specifically, in addition to general information about the economy (who produces how much for whom), be sure to answer...

- What issues in the country’s history and present can be seen as causes for their underdevelopment?
- What are the present manifestations of underdevelopment?
- What possible “solutions” are on the horizon?
- You must identify at least one issue that you will develop in your Country Economic Memorandum

2) Country Economic Memorandum due 3/30: an opportunity to apply the models we cover in class to a development issue faced by your country.

In your Country Report you identify a particular development problem/issue (e.g. pollution in China). In the Memorandum you describe this issue in detail, using models to explain how the issue arose (e.g. Tragedy of the Commons), the impact that it will have on the overall economy (e.g. Fisheries model of unsustainable development).

Graphs are expected. Descriptive data are also required. You may use models outside those covered in class.

3) Country Policy Prescriptions due 4/24: The final paper allows you to formulate and present possible policy solutions to the problem you analyzed in the Economic Memorandum. In this paper you must present various policy tools (e.g. tradeable permits) and explain how they could be applied. You should the hoped-for outcome and possible pitfalls in implementing the policy.

Exams: There are two exams. The first is tentatively scheduled for 3/13. The second is scheduled for the final exam period. I reserve the right to change the first exam date, but will give you at least 1 week notice of any changes. 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.

Problem sets will be distributed periodically through the semester. The frequency will depend in part on whether the material lends itself to “problems.” Two weeks before the exams I will distribute Review Problem Sets. We will go over these problem sets at a review session prior to each exam.

Lecture notes are available in my Public folder...they are “fill in the blank” notes, so you must attend class to complete them, but they should make note-taking easier/faster for you.

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 331 Buckman. I have scheduled office hours for MW 12:00-12:30 and TTH 9:30-10:30. 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: grammt@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 2009 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