

Econ 352 A — Structuralist Macroeconomics: Theories and Policies for Developing Countries

Middlebury College — Spring 2018

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Office: Warner Hall Room 502A

Office Hours: Tuesdays (10:30-12pm) and Thursdays (4:30-6pm).

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Lectures: Tuesdays and Thursdays 1:30 pm - 2:45 pm

Location: Warner 207

Description

In this course we will examine key macroeconomics challenges faced by developing countries. In contrast to the senior seminar in Macroeconomics of Development, which focuses on long-run growth, this course focuses on short-run and medium-run macroeconomic issues; as such, it builds more closely on the Macroeconomic Theory core course. The topics covered include inflation and distributive conflict, structural constraints on aggregate demand, external crises, volatility, and pro-cyclical fiscal and monetary policies. We will examine these topics through a combination of formal theoretical models, applied papers, and case studies.

Course Web Page

Readings, short response assignments, and problem sets will be available on the course's **Canvas** website.

Student Evaluation

Your evaluation will be comprised of the following items. More information on each item is given in the subsections below.

- Class attendance and participation in class activities (5%).
- Two problem sets and one data assignment (30%).
- Several pass-fail short response assignments (10%).
- A final paper proposal and an annotated bibliography (5% each)
- A final term paper (30%).

Problem Sets

There will be two problem sets and one data assignment during the semester. They will help you to learn the models discussed in class and to understand the economic intuition behind their main results. Even though you are encouraged to seek help from your classmates when solving the problem sets, your answers must be written up separately, reflecting your final understanding of the questions.

Short Response Assignments

You will be required to turn in short responses (1-2 paragraphs) to most of the applied readings discussed in class. I will typically pose one or two questions that I expect you to address in your short response.

These short assignments will be available on Canvas, and they will be due in hard copy on the indicated class days. The response papers will be assessed on a pass/fail basis (i.e. they will not be graded).

Final Paper

The final assignment for the course is a paper (12-15 pages) on a topic of your choice. I expect your paper to be related to the broad topics covered in the course (You are encouraged to discuss your ideas with me and with your classmates as you select a topic).

To help you develop your project, the assignment is divided into three steps. First, a brief proposal (1-2 pages) is *due in class on April 5*.

Second, an annotated bibliography including five sources you will use in your paper and a short (1-2 paragraph) summary of each source is *due in class on April 26*. Doing so will help you identify relevant sources for a literature review, as well as salient issues that have turned up in previous research.

Finally, the completed paper is *due May 20*. Students must upload their paper (in pdf format) to the course's Canvas page.

Office Hours and Email Policy

My regular office hours will be held Tuesdays (10:30am-12pm) and Thursdays (4:30pm-6pm), unless announced otherwise. I plan on having problem sets be due on Fridays by 12pm.

I am also available by appointment, but I expect you to provide advance notice of your desire to meet and to be flexible with regards to scheduling. It may take 24 hours for me to respond to email (not including weekends).

Policy Regarding the Use of Technology in the Classroom

The widespread use of phones and laptop computers in class can be distracting to you and to other students. The limited use of laptops for note-taking during class is okay. But if you cannot resist the urge to check your email or other websites, please keep your laptop stowed away. I will ask you to do so if it looks like you or those around you are distracted.

Honor Code

I expect students to follow the College's honor code. Copying someone else's work is a serious violation of the honor code.

Lecture Plan

The lecture plan below is tentative. Any changes will be announced in class, and you will be required to adjust the readings accordingly.

Introduction. Macroeconomics: Why Structuralist? Why for Developing Countries?

2.13 Course Overview and Introduction

Required Reading:

Nayyar, D. (2007). “Macroeconomics in developing countries”. Banca Nazionale del Lavoro Quarterly Review, 60(242), 249.

Optional Reading:

Agénor, P. R., and Montiel, P. J. (2015). “Development macroeconomics”. Princeton University Press. (Chapter 1: Scope of Development Macroeconomics)

Sunkel, O. (1966). “The structural background of development problems in Latin America”. Weltwirtschaftliches Archiv, 22-63.

Section I. Distributive Conflict and Inflation

2.15-2.20 Analytical framework.

Required Reading:

Lavoie, M. (2014). “Post-Keynesian economics: new foundations”. Edward Elgar Publishing. (Chapter 8: Inflation Theory, sections 8.1-8.4 and 8.91)

Burdekin, R., and Burkett, P. (1996). “Distributional conflict and inflation: theoretical and historical perspectives”. London: MacMillan. (Chapter 1: Conflict Inflation as an Analytical Approach) **[Response Paper Required]**

Handout: ‘Hat Calculus’ and Growth Rates.

Optional Reading:

Rowthorn, Robert E. “Conflict, inflation and money.” Cambridge Journal of Economics 1, no. 3 (1977): 215-239.

2.22 Application: Distributive conflict and inflation in Brazil (1999-2014)

Summa, R. and Serrano, F. “Distribution and Conflict Inflation in Brazil under Inflation Targeting, 1999–2014”, Review of Radical Political Economics (2017): 1-21 (doi: 10.1177/0486613417691787) **[Response Paper Required]**

Section II. Structural Constraints on Demand and Distributive Conflict: Agriculture and the Wage Goods Constraint

2.27-3.1 Analytical framework: Kalecki’s dual economy model and the Structuralist approach to inflation.

Required Reading:

Ros, Jaime (2013) “Rethinking Economic Development, Growth, and Institutions”, 1st edition. Oxford University Press. (Chapter 12, sections 1 and 2)

Optional Reading:

Hirschman, A. (1981) “The social and political matrix of inflation: elaborations on the Latin American experience”, in: Essays in Trespassing: economics to politics and beyond. Cambridge: Cambridge University Press), p. 177-209.

Craven, C. (1994). “A transformation problem: monetarism to structuralism in the Economic Commission for Latin America”. History of Political Economy, 26(1), 1-19.

de Carvalho, A. R. (2017) ”A Second-generation Structuralist transformation problem: the rise of the inertial inflation hypothesis.”, mimeo.

3.6 Application: Growth slowdown in India’s Manufacturing sector during the mid 1960s and 1970s: The wage goods debate.

Required Reading:

Chakravarty, S. “Reflections on the growth process in the Indian economy”, in Chakravarty, S. (1993). Selected economic writings. Oxford University Press.

Rao, J. M., and Storm, S. (1998). “Distribution and growth in Indian agriculture” in, Byres, T (org), The Indian Economy. Major Debates since Independence. Delhi: Oxford University Press. [especially section 4.3]

[response paper required]

Optional Reading:

Balakrishnan, P. (2010). “Economic growth in India: History and prospect”. Oxford University Press. (Chapter 3: A Second Wind (1965-1991)).

Patnaik, P. (1972). “Disproportionality crisis and cyclical growth: A theoretical note.” Economic and Political Weekly, 329-336 [esp. section III]

Vaidyanathan, A. (1977). “Constraints on growth and policy options.” Economic and Political Weekly, 1643-1650.

Patnaik, U. (1986). “The agrarian question and development of capitalism in India.” Economic and Political Weekly, 781-793.

Section III. Structural Constraints on Demand and Distributive Conflict: Foreign Exchange Constraints

3.8-3.13 Analytical Framework: National Accounting in Open Economies

Required Reading:

Feenstra, R. and Taylor, Alan (2008) “International Economics”, Worth Publishers (Chapter 16)

3.15-3.20 Analytical Framework: The Two-Gap Model.

Required Reading:

Ros, Jaime (2013, Chapter 12, section 3)

3.22 Application: Stop-and-go cycles in post-war Argentina.

Diaz-Alejandro, C.F. (1970) ”Essays on the economic history of the Argentine Republic.” New Haven: Yale University Press (Chapter 7: Stop and go cycles and inflation during the postwar period.)

3.27-3.29 Spring Break

Section IV. External Debt, Structural Adjustment, and Growth Collapses.

4.3 Background and Motivation: The 1980s Debt Crisis in Latin America

Required Reading:

Griffith-Jones, S., and Sunkel, O. (1986). “Debt and development crises in Latin America: the end of an illusion”. Oxford University Press, USA, Chapter 7 (The privatization of the international financial system in the 1970s and its implications) and Chapter 8 (Causes and management of debt crises in the early 1980s). **[Response Paper Required]**

Optional Reading:

Diaz-Alejandro, C. F. (1984) “Latin American debt: I don’t think we are in Kansas anymore.” Brookings papers on economic activity 1984.2, 335-403.

4.5-4.17 Analytical Framework: The three-gap model.

Required Reading:

Handout on demand-constrained growth.

Ros, Jaime (2013, chapter 13).

4.5 Paper proposal due

4.19 Application: External shocks and the adjustment to the 1980s debt crisis.

Required Reading:

Dornbusch, R. (1989) "Debt problems and the world macroeconomy." in Sachs, J. (org.) *Developing Country Debt and Economic Performance, Volume 1: The International Financial System*. University of Chicago Press, p. 331-358. **[Response Paper Required]**

Optional Reading:

Edwards, S. (1989) "Structural adjustment policies in highly indebted countries." in Sachs, J. (org.), *op. cit.*, pp. 159-208.

Section V. Crises under Financial and Capital Account Liberalization.

4.24 The Anatomy of Joint Banking and Currency Crises

Required Reading:

Kaminsky G. y C. Reinhart (1999). "The twin crises: the causes of banking and balance-of-payments problems", *American Economic Review*, pp.473-500

Optional Reading:

Ffrench-Davis, R., and Ocampo, J.A. "The globalization of financial volatility: challenges for emerging economies." in Ffrench-Davis, R. (org.) *Financial Crises in Successful Emerging Economies*, Washington, DC, Brookings Institution Press, 2001.

Diaz-Alejandro, C. (1985). "Good-bye financial repression, hello financial crash". *Journal of development Economics*, 19(1-2), 1-24.

4.26 Application: The 1995 Crisis in Mexico.

Required Reading:

Ros, J. (2001) "From the capital surge to the financial crisis and beyond: the Mexican economy in the 1990s." in Ffrench-Davis, R. (org.) *Financial Crises in Successful Emerging Economies*, Washington, DC, Brookings Institution Press, 2001, 107-139. **[Response Paper Required]**

4.26 Annotated bibliography due

Section VI. Volatility: Shocks and Pro-cyclical Macro Policies.

5.1 External vulnerability.

Required Reading:

Ocampo, J.A. (2016) "Balance-of-Payments Dominance: Implications for Macroeconomic Policy", in Damill M., Rapetti M., and Rozenwurcel G. (orgs.) *Macroeconomics and Development: Roberto Frenkel and the Economics of Latin America*. New York: Columbia University Press.

Reinhart, Carmen M., Vincent Reinhart, and Christoph Trebesch. (2016) "Global cycles: Capital flows, commodities, and sovereign defaults, 1815-2015." *American Economic Review* 106.5: 574-80.

[Response Paper Required]

5.3 Pro-cyclical Macro Policies

Required Reading:

Kaminsky, Graciela L., Carmen M. Reinhart, and Carlos A. Végh. "When it rains, it pours: procyclical capital flows and macroeconomic policies." *NBER macroeconomics annual* 19 (2004): 11-53.

[Response Paper Required]

5.8 Application: Volatility and Pro-cyclical Fiscal Policy in Africa

Required Reading:

Ebeke, C., and Ehrhart, H. (2011). "Tax revenue instability in Sub-Saharan Africa: Consequences and remedies." *Journal of African Economies*, 21(1), 1-27.

Luo, Xubei. “Volatility and Vulnerability.” in *The Oxford Handbook of Africa and Economics*, Vol. 1 Context and Concepts s

[Response Paper Required]

5.10 Capital controls and increased policy space after the 2008 global financial crisis?

Ocampo, J. A., Griffith-Jones, S., Noman, A., Ortiz, A., Vallejo, J., and Tyson, J. (2012). “The great recession and the developing world.” in Alonso, J. A. and Ocampo, J. A. (eds.) *Development cooperation in times of crisis*. Columbia University Press, 2012, 17-81.

Grabel, I. (2015). The Rebranding of Capital Controls in an Era of Productive Incoherence. *Review of International Political Economy*, 22 (1), 7–43.

[Response Paper Required]