

# Econ 415 A — The Macroeconomics of Development

Middlebury College — Fall 2017

This version: September 11, 2017

Instructor: Joao Paulo A. de Souza

Office: Warner Hall Room 502A

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

[jdesouza@middlebury.edu](mailto:jdesouza@middlebury.edu)

Lectures: Tuesdays and Thursdays 3:00 pm - 4:15 pm

Location: Warner 203

## Description

In this course we will examine macroeconomic aspects of economic development, with the goal of tackling such perennial questions as: Why do most poor countries remain poor? How have successful developing countries managed to grow sustainably? Why have growth spurts been interrupted in so many others?

To discuss these questions, we will explore theoretical models combining insights from growth theory, trade theory, and classical development theory. We will integrate these insights into a consistent framework, in order to consider how the economic structure of most developing countries — characterized by surplus labor and technological asymmetries across sectors — can give rise to the possibilities of growth accelerations and low-growth traps. In so doing, we hope to cast light on the divergent experiences of developing countries over the last several decades.

The course has a theoretical focus, and we will spend most lectures examining the issues above through simple formal models. But we will also make time for discussing applied work and case studies, in order to understand how the theories illuminate concrete issues that have faced developing countries. Students will have a chance to discuss real-world examples through in-class presentations and through a final paper (see below).

## Expectations

Due to the theoretical focus of the course, I expect students to be willing to learn and work with simple formal models. In addition to the prerequisites for the course, some knowledge of calculus is highly recommended. Specifically, I expect students to be familiar with derivatives and basic optimization. That being said, I will focus on how models contribute to our economic intuition and keep technicalities to a minimum. Feel free to discuss any concerns about your qualifications with me.

The college also offers tutoring services for quantitative skills (<http://www.middlebury.edu/academics/resources/ctlr/students>).

## Textbook and Readings

Most of the reading assignments are drawn from

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

Ros’s book is a wonderful integration of early development theory and structuralist macroeconomics into the framework of modern growth theory. The chapters focus on intuition, as opposed to technicality, and theoretical models are always motivated by empirical evidence. But it is not a standard textbook. Passages can be dense, and the author assumes that readers have some background in the subject. To get the most out of the book, we will only cover specific chapters, and often only selected sections of chapters. I will seek to provide the necessary background in the lectures, as well as specific guidance on how to approach the readings.

I have ordered the textbook through the campus textbook store. An e-book version is also available through the Library. I have listed additional reading assignments in the lecture plan below. They will be available on the course’s Canvas website.

## Course Web Page

Short response assignments, additional readings, and problem sets will be available on the course’s **Canvas** website.

## Student Evaluation

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

- Class attendance and participation in class activities (5%).
- Three problem sets (30%).
- One small-group paper presentation (15%).
- Several pass-fail short response assignments (10%).
- A final term paper (40%).

## Problem Sets

There will be three problem sets 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.

## Student Presentations

Students will be responsible for presenting a total of *six papers or book chapters* in six in-class sessions spread throughout the semester. These presentations are a fundamental complement to lectures. They will give you the opportunity to discuss empirical work and case studies in light of the theories learned in class. They will also help you select topics and literature for your final paper (see below).

Each student will be responsible for presenting one paper during the semester. Since the number of students exceeds the number of presentation slots, the presentations will be conducted by small groups of 3 to 4 students. I will circulate a detailed list of the papers available for presentation on the first day of class, and I will match students to papers by taking their preferences into account.

Each presentation session will have about 35 minutes for the presentation followed by about 35 minutes of general discussion. All students are expected to have turned in a short response about the papers (see below), and to contribute to the discussion.

## Short Response Assignments

In advance of the small-group presentation sessions, all the students who are not presenting will be required to turn in short responses (1-2 paragraphs) to the paper being presented. The students who are presenting need not turn in a short response. I will also require response papers for selected readings that I will cover in the lectures (see the lecture plan below).

I may suggest that you address one or two questions in your response, but otherwise I expect you to point out aspects of the readings that you found interesting or that you would like to discuss in class (avoid writing simple summaries). These short response assignments will help you reflect on the reading, relate it to the material seen in class, and participate more effectively in discussion.

These short assignments will be available on Canvas, and they will be due by 3pm 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. Although I expect your paper to be related to macroeconomic aspects of development, you will have ample freedom to develop a project based on your own interests.

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 October 31*. You are encouraged to discuss your ideas with me and with your classmates as you select a topic.

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 November 28*. 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 December 17*. 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.

## 9.12 Get to know each other. Course Overview.

## 9.14-10.3 Dualism and Surplus Labor: the Lewis Model and Structural Change.

### Reading:

Handout: 'Hat Calculus' and Growth Rates.

Ros (2013), Chapter 6, sections 1 and 2.

Lewis, W.A. (1954). "Economic development with unlimited supplies of labour". The Manchester School 22 (2), 139-191.

McMillan, M., Rodrik, D., and Verduzco-Gallo, Í. (2014). "Globalization, structural change, and productivity growth, with an update on Africa". World Development, 63, 11-32. [**response paper required**].

### Optional Reading:

Felipe, J., Mehta, A., and Rhee, C. (2015) Manufacturing Matters... But It's the Jobs that Count. Asian Development Bank Economics Working Paper Series No. 420

Gollin, Douglas (2014) "The Lewis Model: A 60-Year Retrospective." Journal of Economic Perspectives, 28(3): 71-88.

## 10.5 Student Presentation.

Li, H., Li, L., Wu, B., and Xiong, Y. (2012). "The end of cheap Chinese labor". The Journal of Economic Perspectives, 26(4), 57-74.

## 10.10-10.12 Increasing Returns to Scale and Externalities: A First Pass.

### Reading:

Young, A. A. (1928). "Increasing Returns and Economic Progress". The Economic Journal, 527-542. [**response paper required**]

### Optional Reading:

Scitovsky, T. (1954). "Two concepts of external economies". The Journal of Political Economy, 143-151.

Szirmai, A. (2012). "Industrialisation as an engine of growth in developing countries 1950-2005". Structural Change and Economic Dynamics, 23(4), 406-420.

## 10.17 Student Presentation.

Imbs, J., and Wacziarg, R. (2003). "Stages of diversification". American Economic Review, 63-86.

## 10.19 Student Presentation.

Pritchett, L. (1997). "Divergence, big time". The Journal of Economic Perspectives, 3-17.

## 10.24 Fall Break.

## 10.31-11.9 Technological and Pecuniary Externalities, Poverty Traps, and the 'Big Push' Argument.

## 10.31 Paper Proposals Due.

### Reading:

Ros (2013), Chapter 7 (sections 1-3), Chapter 8 (section 1), and Chapter 9 (sections 1 and 3).

Rosenstein-Rodan, P. N. (1943). "Problems of Industrialisation of Eastern and South-Eastern Europe". The Economic Journal 53, 202-211. [**response paper required**]

## 11.14 Student Presentation.

Bateman, F., Ros, J., and Taylor, J. E. (2009). "Did New Deal and World War II Public Capital Investments Facilitate a 'Big Push' in the American South?". Journal of Institutional and Theoretical Economics, 165(2), 307-341.

## 11.16 Student Presentation.

Rodrik, D. (1995). "Getting interventions right: how South Korea and Taiwan grew rich". Economic Policy, 10(20), 53-107.

## **11.21-12.5 Trade Policies, the Dutch Disease, and the Challenge of Deindustrialization.**

### **11.23 Thanksgiving Break.**

### **11.28 Annotated Bibliography Due.**

#### **Reading:**

Ann Harrison and Andrés Rodríguez-Clare (2010). "Trade, Foreign Investment, and Industrial Policy for Developing Countries". In Dani Rodrik and Mark Rosenzweig (org.) "Handbook of Development Economics, Vol. 5", The Netherlands: North-Holland, pp. 4039-4214. [Section 2.1 only].

Rajan, Raghuram G., and Arvind Subramanian. "Aid, Dutch disease, and manufacturing growth." *Journal of Development Economics* 94.1 (2011): 106-118.

Rodrik, D. (2016). "Premature deindustrialization." *Journal of Economic Growth*, 21(1), 1-33. [**response paper required**].

#### **Optional Reading:**

Ocampo, J.A.; Rada, C.; Taylor, L. "Growth and Policy in Developing Countries: A Structuralist Approach" New York: Columbia University Press, Chapter 4 ("Open Economies and Patterns of Trade").

Rapetti, M. (2016). "The real exchange rate and economic growth: Some observations on the possible channels". In M. Damill, M. Rapetti, and G. Rozenwurcel (Eds.), *Macroeconomics and Development: Roberto Frenkel and the Economics of Latin America*, pp. 250–268. New York, NY: Columbia University Press.

Corden, W. M., and Neary, P.J. "Booming sector and de-industrialisation in a small open economy." *The Economic Journal* 92.368 (1982): 825-848.

### **12.7 Student Presentation.**

Wade, R. (1990). "Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization". Princeton, NJ: Princeton University Press. Introduction and Chapter 5 ("Management of Foreign Trade and Investment").

### **12.17 Final Paper Due.**