Economic Development Policy

Econ 497
Time: M 2:430 pm
Location: Tilton 301
Fall 2009

Instructor
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Description
This course will analyze the economic challenges faced by low and middle-income countries in their quest for development. The course will be divided into two sections. In the first section, we will address the challenge of economic growth and what might cause some development strategies to succeed and others to fail. In particular, we will focus on the role played by government policies and economic openness in fostering growth. In the second part of the course, we will address the challenges of generating equitable growth. We will examine the trends in poverty and inequality in specific regions and countries, learn about the interconnections between inequality and growth, and analyze how development strategies and government policies may result in more, or less, equitable outcomes. In this course, students will have an opportunity to apply the tools of economic analysis to both broad and specific policy issues, gain an in-depth understanding of the evolution of development thinking, and be able to analyze the experience of specific countries to gain insights on which factors account for their economic success or lack of it.
Prerequisites: Intermediate Macro and Microeconomics or by permission of instructor.

Learning Outcomes
Conceptual Knowledge: By the end of the course, students shall be able to:

• Know the alternative methods to measure development, their advantages and disadvantages, and the importance of the purchasing power parity concept.
• Compare and contrast leading growth theories and development perspectives.
• Be familiar with the “growth diagnostics” approach and its application to specific countries.
• Differentiate between alternative development strategies and identify which factors account for their success or failure in specific countries.
• Understand the link between economic openness, growth and equity and what do empirical studies show so far.
• Know the facts about poverty and inequality in the global economy and specific regions.
• Understand the interconnectedness between inequality, poverty, growth and development.
• Produce a taxonomy of pro-poor/pro-equity government intervention and broadly compare and contrast government interventions based on their effectiveness, efficiency and progressiveness.
• Understand the importance of adverse systemic shocks (economic crises, rising food prices, etc.) as development “stoppers” and identify policy interventions to minimize their impact on the poor.

Skills:
• Access and use resources effectively.
• Think and communicate effectively using appropriate means such as writing, speaking, listening, numbers, and graphics.
**Organization of the Course**
The course will be conducted as a seminar. Each week the instructor will devote part of the session to introduce the subject. Subsequently, pre-assigned students will be asked to lead the discussion by addressing the questions posed for that session, summarizing the main arguments and conclusions, and posing some additional questions for the class to ponder. Careful and critical reading of the required texts is a major component of this course.

**Grading**
There will be two tests; each test will count as 30 percent of the grade. The in-class presentations will count as 30 percent. Participation in class will count as 10 percent of the grade.

**Readings**

The Todaro and Smith textbook should be available in the bookstore; relevant chapters will be posted on blackboard. Other reading materials can be downloaded directly (URL or blackboard) or through the library. Books preceded by an asterisk are on reserve at the library.

**PART I – THE CHALLENGE OF GENERATING SUSTAINED ECONOMIC GROWTH**

**AUG 24 - SESSION 1: DEFINING THE DEVELOPING WORLD: MEASURING DEVELOPMENT AND DEVELOPMENT PATTERNS**


*Questions: How do we measure “development”? What has been the evolution of economic performance of countries over time? Has there been convergence in income per capita? Which countries are considered to be part of the developing world? How are developing countries similar and how do they differ?*

**AUG 31 - SESSION 2: GROWTH DETERMINANTS AND THE EVOLUTION OF DEVELOPMENT THINKING**

Todaro and Smith, Chapters 3, 4, 11 and 12.


http://muse.jhu.edu/journals/economia/v003/3.1lindauer.pdf


Questions: What have been the main changes in growth theory? How relevant and in what respect is growth theory for economic development thinking and policy? What have been the main development perspectives in the last fifty years or so? What are the main differences in policy recommendations among alternative development perspectives? Why do different perspectives arrive at opposing policy recommendations? Is it ideology, or is it different assumptions about how the market system and macroeconomic mechanisms work? If the latter, how do they differ? How can we tell who is right?

SEP 14 - SESSION 3: GROWTH DETERMINANTS, THE EVOLUTION OF DEVELOPMENT THINKING AND GROWTH DIAGNOSTICS

Todaro and Smith, Chapters 3, 4, 11 and 12. (blackboard)


*Questions: How would you go about designing a development strategy? Do you think the growth diagnostics framework is useful? How would you go about applying it in a specific country? What are its limitations?*

**SEP 21 - SESSION 4: DEVELOPMENT SUCCESSES: EAST ASIA, CHINA AND INDIA**


*Panagariya, Arvind. 2008. *India. The Emerging Giant*, Oxford University Press, Introduction, Chapters 4, 5, 6, 9, 10, 12, 13, 14 and 17. (on reserve)*

The Economist, *Arvind vs. Arvind.*
http://www.economist.com/books/displaystory.cfm?story_id=11613958

*Questions: Is there an “East Asian model”? How would you characterize it? What policy implications can be derived from it for other countries? Why are China and India growing so fast? Can their experience be translated into policy recommendations for other countries? Which type of countries? What would those policy recommendations be?*
OCT 5 - SESSION 5: DEVELOPMENT PUZZLES: POST-NAFTA MEXICO


Questions: What are the salient characteristics of Mexico’s post-NAFTA economic performance? What has Mexico done right? Done wrong? If you were to apply the growth diagnostics framework, what do you think would be the binding constraint(s)? What would you recommend President Calderon to do now?

OCT 12 - SESSION 6: DEVELOPMENT TRAPS AND GROWTH INTERRUPTED: ECONOMIC CRISSES, CONFLICT AND FRAGILE STATES


Todaro and Smith, Chapter 13.


Questions: Do you think that some countries are caught in “poverty traps”? How would you go about identifying the source of the poverty trap? Would a growth diagnostic framework help you? How would you go about applying it to a specific country? What do you do when poverty traps are the result of conflict? Why do countries face periods of contracting GDP? How important is it to have the right macroeconomic policies for sustained growth? What are the “right” macroeconomic policies?

OCT 19 - SESSION 7

First Test. Ten short essay questions (10 points each). Covers material from sessions 1 to 6.

PART II – THE CHALLENGE OF GENERATING EQUITABLE GROWTH

OCT 26 - SESSION 8: POVERTY AND INEQUALITY: CONCEPTS, MEASUREMENT AND TRENDS

Todaro and Smith, Chapter 5.


Questions: what are the most frequently used poverty and inequality measures? What are their limitations? What has happened to poverty and inequality in the world? Are there any noticeable trends?

**NOV 2 - SESSION 9: POVERTY, INEQUALITY, DEVELOPMENT AND GROWTH**


Questions: how is inequality expected to evolve in a market economy? Do inequality and poverty fall with economic growth? Are poverty and inequality bad for growth? What is so special about agriculture in relation to development and poverty?

NOV 9 - SESSION 10: PUBLIC POLICY, POVERTY AND INEQUALITY


Further readings:

Questions: has trade liberalization and globalization been associated with higher inequality and poverty? Which are the main components of pro-poor/ pro-equity public policy? Are conditional cash transfers a form of effective pro-poor intervention? Which are the best instruments available to provide social protection to the poor in the event of adverse shocks?

NOV 16 - SESSION 11: DEVELOPMENT PATTERNS, POVERTY AND INEQUALITY


Sokoloff, Kenneth, and Joyce Robinson. 2004. “Historical Roots of Inequality in Latin America”. In Inequality in Latin America and the Caribbean. Breaking with History? coordinated


Questions: what made it possible for East Asian countries to combine growth with low inequality? Why has China not been able to replicate the experience of South Korea and Taiwan in this respect? Why has Latin America experienced persistently high inequality? Are recent declines in inequality a break with the past? What do we learn from the experience of advanced countries? Which policies may be the most important ones to address poverty and inequality? Do developing countries have the administrative capacity and resources to implement such policies?

NOV 23 - SESSION 12: THE IMPACT OF ECONOMIC CRISES AND RISING FOOD PRICES ON INEQUALITY AND POVERTY


http://siteresources.worldbank.org/INTPOVERTY/Resources/WDR

Lustig, Nora “Thought for Food: the Challenges of Coping with Soaring Food Prices,”
http://www.cgdev.org/content/publications/detail/967250


Question: how do economic crises impact transitory and chronic poverty? What can governments do to protect the poor from the costs of economic crises? How do rising food prices affect the poor? What can governments do to protect them from rising food prices? Do developing countries have adequate safety nets?

NOV 30 - SESSION 13

Second Test. Ten short essay questions (10 points each). Covers material from sessions 8 to 12.
Resourceful websites:

http://www.undp.org (United Nations Development Programme website)
http://www.adb.org (Asian Development Bank website)
http://www.afdb.org/ (African Development Bank website)
http://www.wider.unu.edu/ (United Nations World Institute for Development Economic Research)
http://iber.berkeley.edu/wps/ciderabs.htm (UC Berkeley Center for International and Development Economic Research)
ActionAid
http://www.actionaid.org
Center for Global Development
http://www.cgdev.org/section/topics/globalization
Globalization and Inequality Group hosted by the Brookings Institution and the Center for Global Development
http://www.brookings.edu/gs/research/projects/glig/glig_hp.htm
Oxfam
http://www.oxfam.org/eng
World Bank Globalization page
Ann Harrison’s Poverty, Inequality, and Globalization page
http://arc.berkeley.edu/~harrison/globalpoverty/index.html
Inter-American Development Bank
http://www.iadb.org/
OECD
http://www.oecd.org/

Websites to monitor impact of crisis and policy response:

http://www.imf.org/external/fin.htm
http://africancan.worldbank.org/
http://crisistalk.worldbank.org/
http://www.eclac.org/
http://www.afdb.org/
http://baselinescenario.com/
http://www.calculatedriskblog.com/
http://www.nakedcapitalism.com/
http://www.portfolio.com/views/blogs/market-movers/
http://www.foxeu.org/#