

## Econ 6693.001 Development Economics

“All happy families are alike; each unhappy family is unhappy in its own way.”

Leo Tolstoy, *Anna Karenina*

Instructor: Firat Demir; Office: Cate Center 1, Room 436; Office Hours: M 10:00-12:00, Tel. 325-5844, E-mail: [fdemir@ou.edu](mailto:fdemir@ou.edu). Class time: TR 10:30-11:45 am. Cate Center 145

### 1. Course Objective

This course is a graduate level seminar on development economics and is designed to introduce students to theoretical and empirical questions, policy issues, methods and controversies in the field. The course is organized around class discussions on assigned readings.

Throughout the course we will pay special attention to the evolution of development thinking and examine differences between macro and micro development economics, economics of growth and structural change, the role of industrial policy, open economy macroeconomics (including trade, finance and exchange rates), globalization in trade and finance, institutions and development policies, and North vs. South in development.

### 2. Work Requirements and Grading

- Class participation. Students are expected to come to each class after having *read* the assigned readings, and to *participate* in classroom discussions. (20%).
- Oral/slideshow presentations & leading class discussions on assigned readings. The number of presentations each student makes will depend on enrollments, but each student should expect at least 2 presentations during the semester and we should have about 2 student presentations each week. Evidence of not having done the readings or not being prepared for discussions of articles presented by others will result in deductions from your grade. (20%).
  - Discussant role: Serve as discussant on another student’s research paper and presentation and write 2-3 pages of critical but constructive comments, focusing on substantive arguments and evidence. Present these comments for 5 minutes.
- Research paper including various preliminary submissions and presentations to the class at appropriate stages (e.g., topic, data, hypotheses, results). (30%).
- Take-home final exam, due December 10. You will be given one week to complete. (30%).

### 3. Research Paper

On a topic related to the course you will write a 7,000-9,000 word research paper that is due in class on *November 26*, or earlier. The research paper is on a topic of your choice with a well-focused question. You must make a clear argument and defend your claims rigorously and systematically with theoretical and empirical evidence. Here you have two options: a) You can use this as an opportunity to work further on your dissertation (as long as it is on economic development), b) You can choose a topic that is of interest to you and may possibly help you develop your dissertation ideas. The topic for the paper must be approved in advance and a 1-2 page proposal is due on **September 10**.

- Research presentation. Present your research paper’s argument, evidence, and implications in a 20-minute “conference-style” talk. Respond to questions.

#### 4. Major references

All required and optional readings are available on Canvas.

- Jaime Ros, 2016. *Rethinking Economic Development, Growth, and Institutions*. Oxford University Press.
- Pierre-Richard Agénor and Peter J. Montiel, 2015. *Development Macroeconomics*, 3<sup>rd</sup> Ed. (2<sup>nd</sup>/4<sup>th</sup> Eds. are also ok.). Princeton University Press.
- Peter J. Montiel, 2011. *Macroeconomics in Emerging Markets*, 2<sup>nd</sup> Ed. Cambridge University Press.
- Omar S. Dahi and Firat Demir, 2016. *South-South Trade and Finance in the 21<sup>st</sup> Century: Rise of the South or a Second Great Divergence*. Anthem Press.
- Carlos A. Vegh, 2013. *Open Economy Macroeconomics in Developing Countries*. MIT Press.
- Debraj Ray, 1998. *Development Economics*. Princeton University Press.
- UN Conference on Trade and Development (UNCTAD), 2018. *Trade and Development Report*. New York and Geneva: United Nations.
- Amitava K. Dutt and Jaime Ros (Eds.), 2006. *International Handbook of Development Economics*. Edward Elgar, Cheltenham.
- Dani Rodrik and M.R. Rosenzweig. 2009. *Handbook of Development Economics*, Vol. 5. North Holland.
- Philippe Aghion, and Peter Howitt, 1998. *Endogenous Growth Theory*. MIT Press.
- Robert J. Barro, and Xavier Sala-i-Martin, 2003. *Economic Growth*, 2<sup>nd</sup> edition. MIT Press.
- Daron Acemoglu, 2007. *Introduction to Modern Economic Growth*. MIT.

#### Suggested follow-up readings

- Alice H. Amsden, 1989. *Asia's Next Giant. South Korea and Late Industrialization*. Oxford University Press.
- Alice H. Amsden, 2001. *The Rise of "The Rest": Challenges to the West from Late-Industrializing Economies*. Oxford University Press.
- Alice H. Amsden, 2007. *Escape from Empire*. MIT Press.
- Ha-Joon Chang, 2002. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. Anthem.
- Ha-Joon Chang, 2008. *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*. Bloomsbury Press.
- Mike Davis, 2002. *Late Victorian Holocaust: El Niño Famines and the Making of the Third World*. Verso.
- Jared Diamond, 1999. *Guns, Germs, and Steel*. Norton.
- Arturo Escobar, 1995. *Encountering Development. The Making and Unmaking of the Third World*. Princeton University Press.
- William Easterly, 2002. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. MIT Press.
- Morten Jerven, 2013. *Poor Numbers: How We Are Misled by African Development Statistics and What to Do about It*. Cornell University Press.
- Dani Rodrik (ed.), 2003. *In Search of Prosperity: Analytic Narratives on Economic Growth*. Princeton University Press.

- Karl Polanyi, 2001. *The Great Transformation*. Boston Beacon Press.
- Amartya Sen 2000. *Development as Freedom*. Anchor Books.
- Robert Wade, 1990. *Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization*. Princeton University Press.

### 5. Academic Ethics

Cheating on assignments and exams, or plagiarizing is penalized by the University of Oklahoma. A student found in such a situation will be given an F and be brought to University of Oklahoma Honor Council for further penalties as defined under Academic Misconduct. For further information, refer to <http://www.ou.edu/honorcouncil/index.html>

### 6. Students with Disabilities

Any student who feels he or she may need an accommodation based on the impact of a disability should contact me privately as soon as possible to discuss his or her specific needs. For details refer to <http://drc.ou.edu/>

### 7. Religious Holidays

“It is the policy of the University to excuse the absences of students that result from religious observances.”

### 8. Grading Scale

90-100	A	60-69	D
80-89	B	<60	D
70-79	C		

I reserve the right to adjust this schedule of grade equivalents in the student's favor.

## 9. Tentative Schedule and Reading List (\* refers to optional readings)

### 1. Introduction to development economics

Week 1:

- Ros, J. (2016). Introduction & Ch. 1
- Streeten, P. (2008). The meaning and measurement of development, in *International Handbook of Development Economics*, Volume One A. K. Dutt and J. Ros (Eds).
- World Bank (2015). World Development Report 2015, Ch. 10: The biases of development professionals. Washington, DC.
- \*Stiglitz, J.E. (2011). Rethinking Development Economics. *World Bank Research Observer*, 26(2): 230-236.
- \*Akbulut, B., Adaman, F. and Madra, Y.M. (2015). The Decimation and Displacement of Development Economics. *Development and Change* 46(4): 733-761.

Week 2.1:

- Rodrik, D. (2008). The New Development Economics: We Shall Experiment, but How Shall We Learn? Working Paper, Harvard University.
- Rodrik, D. (2013). The Past, Present, and Future of Economic Growth. Global Citizen Foundation, Working Paper 1. Read pp.1-32.
- Pritchett, L. (1997). Divergence, Big Time, *Journal of Economic Perspectives* 11(3):3-17.
- \*UNCTAD (2015). Trade and Development Report 2015, chapter 1.
- \*Rodrik, D. (2013). Structural Change, Fundamentals, and Growth: An Overview.” Institute for Advanced Study.

### 2. Neoclassical growth

Week 2.2 & 3.1:

- Ros, J. (2016). Ch. 2 (sections 1, 2), Ch. 3 (section 4), Ch 4 (section 1)
- Levine, R. and W. Easterly (2001). It's Not Factor Accumulation: Stylized Facts and Growth Models. *World Bank Economic Review* 15(2): 177-219.
- \*Solow, R. (1956). A contribution to the theory of economic growth, *Quarterly Journal of Economics* 70(1): 65-94.
- \*Solow, R. (1988). Growth theory: An Exposition. Oxford University Press.

### 3. Endogenous growth

Week 3.2 & 4.1

- Ros, J. (2016). Ch. 2 (sections 3, 4), Ch. 3 (section 4)
- \*Romer, P. M. (1991). Increasing returns and new developments in the theory of growth, in W. Barnett, (ed.), *Equilibrium Theory and Applications: Proceedings of the 6<sup>th</sup> International Symposium in Economic Theory and Econometrics*, Cambridge University Press, Cambridge.
- \*Romer, P. (1994). The Origins of Endogenous Growth. *Journal of Economic Perspectives* 8(1): 3-22.
- \*Solow, R. M. (1994). Perspectives on growth theory, *Journal of Economic Perspectives* 8(1): 45-54.

**4. Classical development theory: The Lewis model and the labor surplus economy**

Week 4.2:

- Ros, J. (2016). Ch.6
- Lewis, A. (1954). Economic development with unlimited supplies of labor, *The Manchester School of Economic and Social Studies* 22(2): 139-191.
- \*Basu, K. (1997). *Analytical Development Economics. The Less Developed Economy Revisited*, Ch. 7
- \*Little, I. (1982). *Economic Development: Theory, Policy and International Relations*, Ch. 6
- \*Nurkse, R. (1953). Population and capital supply, Ch. 2 in *Problems of Capital Formation in Underdeveloped Countries*.

**5. Increasing returns, external economies and multiple equilibria**

Week 5.1:

- Ros, J. (2016). Ch.7
- Ros, J. (2008). Classical development theory, In A. Dutt and J. Ros, *International Handbook of Development Economics*, Edward Elgar.
- \*Rosenstein-Rodan, P. (1943). Problems of industrialization of Eastern and South-Eastern Europe, *Economic Journal*, June-September.
- \*Rosenstein-Rodan, P. (1984). Natura facit saltum: analysis of the disequilibrium growth process, in G. Meier and D. Seers (Eds.), *Pioneers in Development*.
- \*Nurkse, R. (1953). The size of the market and the inducement to invest, Ch. 1. In *Problems of Capital Formation in Underdeveloped Countries*.
- \*Ades, A. and E. Glaeser (1999). Evidence on growth, increasing returns, and the extent of the market, *Quarterly Journal of Economics* 114(3): 1025-1045.

**6. Industrialization, industrial policy and the logic of developmental state**

Week 5.2:

- Shapiro, H. (2008). Industry and Industrial Policy. In A.K. Dutt and J. Ros (Eds.), *International Handbook of Development Economics*, Ch. 32.
- Rodrik, D. (2008). Industrial Policy: Don't Ask Why, Ask How. Harvard University. *Middle East Development Journal*, 1-29.
- Harrison, A. and A. Rodríguez-Clare (2010). Trade, Foreign Investment, and Industrial Policy for Developing Countries." In: Rodrik and Rosenzweig, pp. 4043-4070 (Chapter 63), Parts 2-3.
- Chang, H-J. (2002). Kicking Away the Ladder, Ch.2, pp.13-68.
- Rodrik, D. (2007). Industrial development: Some stylized facts and policy directions. *Industrial development for the 21st century: sustainable development perspectives*. U.N. Department of Economic and Social Affairs: Division for Sustainable Development.
- \*Rodrik, D. (2013). Unconditional Convergence in Manufacturing. *Quarterly Journal of Economics* 128(1): 165–204.

Week 6.1:

- Weiss, J. (2011). Industrial Policy in the Twenty-First Century. United Nations University UNU-WIDER Working Paper No. 2011/55, September 2011.
- Dahi and Demir, Ch.5
- \*Hamilton, A. (1791). Report on manufactures. *Annals of Congress*.

- \*Shapiro, H. and Taylor, L. (1990). The state and industrial strategy.” *World Development* 18(6): 861-78.
- \*Page, J. (2011). Should Africa Industrialize? United Nations University UNUWIDER Working Paper No. 2011/47.

#### Week 6.2:

- Wade, R. (1989). What can Economics Learn from East Asian Success? *Annals of the American Academy of Political and Social Science*, 505, The Pacific Region: Challenges to Policy and Theory: 68-79.
- Rodrik, D. (1994). Getting Interventions Right: How South Korea and Taiwan Grew Rich. *NBER Working Paper* No.w.4964.
- Jenkins, R. (1991). The Political Economy of Industrialization: A Comparison of Latin American and East Asian Newly Industrializing Countries. *Development and Change* 22: 197-231.
- \*Chang, H-J. (2003). The East Asian Development Experience. In *Rethinking Development Economics*. H-J. Chang (Ed.) London: Anthem Press, pp. 107-124.

## 7. Open economy and development

#### Week 7.1:

- Ros, J. (2016). Ch.14
- Rodriguez, F. (2008). International trade and development. In A. Dutt and J. Ros, *International Handbook of Development Economics*, Edward Elgar.
- Harrison, A. and A. Rodríguez-Clare (2010). Trade, Foreign Investment, and Industrial Policy for Developing Countries.” In: Rodrik and Rosenzweig, pp. 4071-4095 (Chapter 63), Part 4.
- Rodríguez, F. and D. Rodrik (2000). Trade policy and economic growth: A skeptic's guide to the cross-national evidence. In B. Bernanke and K. Rogoff (Eds.). *NBER Macroeconomics Annual*.
- McMillan, M. and D. Rodrik (2011). Globalization, Structural Change, and Productivity Growth. *NBER Working Paper* 17143. NBER, Cambridge-MA.

#### Week 7.2:

- Rodrik, D. (2016). Premature Deindustrialization. *Journal of Economic Growth* 21(1): 1-33.
- Syverson, C. (2011). What Determines Productivity? *Journal of Economic Literature*, 49(2): 326–365.
- Ros, J. (2013). Latin America’s trade and growth patterns, the China Factor, and Prebisch’s Nightmare. *Journal of Globalization and Development* 3(2): 1– 16.
- Rodrik, D. (2001). Trading in Illusions. *Foreign Policy*, No. 123 (Mar. - Apr.), pp. 54-62.
- \*Rodríguez-Clare, A. (1996). The division of labor and economic development, *Journal of Development Economics* 49: 3-32.
- \*Ciccone, A. and K. Matsuyama (1996). Startup costs and pecuniary externalities as barriers to economic development, *Journal of Development Economics* 49: 33-60.
- \*Karacaovali, B. (2011). Productivity Matters for Trade Policy: Theory and Evidence. *International Economic Review* 52: 33–62.
- \*Polanyi L., K. (2005). Raul Prebisch and Arthur Lewis: The Two Basic Dualities of Development Economics, in *The Pioneers of Development Economics*. Jomo K.S. ed. London: Zed Books, pp. 193-208.
- \*Krugman, P. (1993). What Do Undergrads Need to Know about Trade? *The American Economic Review*, 83(2), 23-26.

- \*Vernengo, M. (2000). What Do Undergrads Really Need to Know about Trade and Finance? in *Political Economy and Contemporary Capitalism*. R. Baiman, H. Boushey and D. Saunders eds. Armonk, NY: M.E. Sharpe, pp. 177-83.
- \*Galbraith, J. and S. Hsu (2010). Trade Policy in the Post-Neoliberal Era. Background Paper for the UN's World Economic and Social Survey 2010 (New York, NY: United Nations).
- \*Gunter, B. G. and R. van der Hoeven (2004). The Social Dimension of Globalization: A Review of the Literature"; *International Labour Review*, 143(1-2): 7-43.
- \*Nayyar, D. (2009). Developing Countries in the World Economy: The Future in the Past? *WIDER Annual Lecture 12* (Helsinki, Finland: UNU-WIDER).

## 8. Exchange rates and development

Week 8.1:

- Agenor and Montiel, Ch. 9, 10.

Week 8.2:

- Ros, J. (2015). The Real Exchange Rate, The Real Wage and Growth: A Formal Analysis of the "Development Channel." In J. Ros, *Development Macroeconomics in Latin America and Mexico. Essays on Monetary, Exchange Rate, and Fiscal Policies*, Ch.3. Springer-Palgrave.
- Rodrik, D. (2008), The real exchange rate and economic growth. *Brookings Papers on Economic Activity 2*: 365-412.
- Gala, P. (2008). Real exchange rate levels and economic development: theoretical analysis and econometric evidence. *Cambridge Journal of Economics* 32, 273-288.
- Caglayan, M. and Demir, F. (2019). Exchange Rate Movements, Export Sophistication and Direction of Trade: The Development Channel and North-South Trade Flows. Forthcoming in *Cambridge Journal of Economics*.
- \*Frenkel, R. and J. Ros (2006), Unemployment and the real exchange rate in Latin America. *World Development*, 34(4), 631-646.
- \*Schröder, M. (2013). Should developing countries undervalue their currencies? *Journal of Development Economics* 105: 140–151.
- \*Levy-Yeyati, E. F. Sturzenegger, P. A. Gluzmann, (2013). Fear of appreciation. *Journal of Development Economics* 101: 233–247.
- \*Levy-Yeyati, E. and F. Sturzenegger (2010). Monetary and Exchange Rate Policies. In Rodrik and Rosenzweig, pp. 4215-4281 (Chapter 64).
- \*Bird, G. (2002) Where Do We Stand On Choosing Exchange Rate Regimes in Developing and Emerging Economies? *World Economics* 3(1): 145-167.

## 9. Capital flows, financial crisis and economic development

Week 9:

- Agenor and Montiel, ch. 14.
- Prasad, E., R. Rajan and A. Subramanian (2007). Foreign capital and economic growth. *Brookings Papers on Economic Activity*, (1): 1-57.
- Harrison, A. and A. Rodríguez-Clare (2010). Trade, foreign investment, and industrial policy for developing countries. In D. Rodrik and M. Rosenzweig (eds), *Handbook of Development Economics*, vol. 5, pp. 4099-4114 (Chapter 63), Parts 5-6.
- Rodrik D., Subramanian A. (2009). Why Did Financial Globalization Disappoint? *IMF Staff Papers* 56(1): 112-138.

- Ocampo, J. A. (2014). Trade and Finance in Development Thinking. In Currie-Alder et al., pp. 295-310.
- Kose, M. A. E. Prasad; K. Rogoff; and S-J Wei (2010). Financial Globalization and Economic Policies, in: Rodrik and Rosenzweig, pp. 4283-4359 (Chapter 65).

## 10. North-South exchanges and uneven development

Week 10:

- Dahi and Demir, Chs.1, 2, 3.
- Dahi, O. and Demir, F. (2017). South-South vs. South-North Economic Exchanges: Does it Matter Who is Exchanging What and with Whom? *Journal of Economic Surveys* 31(5): 1449-1486.
- Darity, W. Jr., and Davis, L. S. (2005). Growth, trade and uneven development. *Cambridge Journal of Economics* 29: 141-70.
- \*UNDP (2013). Human Development Report 2013: The Rise of the South.

## 11. Institutions and development

Week 11:

- Ros, J. (2016), Ch. 17
- Acemoglu, D., S. Johnson and J. Robinson (2005). Institutions as a fundamental cause of long run growth, In P. Aghion and S. Durlauf (Eds), *Handbook of Economic Growth*, Ch.6.
- Acemoglu, D., S. Johnson. and J. Robinson (2005) The Rise of Europe: Atlantic Trade, Institutional Change and Economic Growth. *American Economic Review* 95(3): 546-579.
- Hall, R. and C. Jones (1999). Why Do Some Countries Produce more Output per Worker than Others? *Quarterly Journal of Economics* 114(1): 83-116.
- Rodrik, D., A. Subramanian, and F. Trebbi (2004). Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development. *Journal of Economic Growth* 9 (2): 131-165.

Week 12:

- Chang, H-J. (2011). Institutions and economic development: Theory, policy and history, *Journal of Institutional Economics* 7(4): 473-498.
- Chang, H-J. (2010). Hamlet without the Prince of Denmark: How development has disappeared from today's 'development' discourse. In S. Khan & J. Christiansen (Eds.), *Towards New Developmentalism: Market as Means rather than Master*
- Rodrik, D. (2006). Goodbye Washington Consensus, Hello Washington Confusion? *Journal of Economic Literature* 44: 969-983.
- \*Bértola, L. (2011). Institutions and the Historical Roots of Latin American Divergence, In J. A. Ocampo and J. Ros, *Oxford Handbook of Latin American Economics*, OUP, Ch.2.
- \*Rodriguez, F. (2010). Does one size fit all in policy reform? Cross national evidence and its implications for Latin America, in S. Mainwaring and T. Scully (Eds.), *Democratic Governance in Latin America*, Stanford: Stanford University Press.
- \*Chang, *Bad Samaritans*, Ch. 9. pp. 167-188.

## 12. Geography, colonialism and economic development

Week 13:

- Ros, J. (2016). Ch. 18.



- Acemoglu, D., S. Johnson and J. A. Robinson (2001). Colonial origins of comparative development: An empirical investigation. *American Economic Review*, 91(5): 1369-1401.
- Acemoglu, D., S. Johnson and J. A. Robinson, (2002). Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution, *Quarterly Journal of Economics*, 1231-94.
- Easterly, W. (2002). *The Elusive Quest for Growth*, Cambridge: MIT Press, Ch. 13 – 14.
- McArthur, J. and J. Sachs (2001). Institutions and Geography: A Comment on Acemoglu, Johnson, and Robinson. NBER Working Paper 8114.
- Sachs, J. (2000). Tropical Underdevelopment, NBER Working Paper 8119.
- Sachs, J. (2003). Institutions Don't Rule: Direct Effects of Geography on Per Capita Income, NBER Working Paper 9490.
- \*Engerman, S. and K. Sokoloff (2002). Factor Endowments, Inequality, and Paths of Development among New World Economies *Economia* 3(1): 41-109.
- \*Davis, M. (2000). *Victorian Holocaust*, Verso Books. Chs. 1, 3, 4, 5.

### 13. Natural resources and development

Week 14:

- Ros, J. (2016). Ch. 15.
- Auty, R. (2008). Natural resources and development. In A. Dutt and J. Ros, *International Handbook of Development Economics*, Edward Elgar.
- \*Corden, M. (1984). Booming sector and Dutch disease economics: a survey and consolidation, *Oxford Economic Papers* 36: 359-380.
- \*Pineda, J. and F. Rodríguez (2010). Curse or Blessing? Natural Resources and Human Development. Human Development Research Paper 2010/4. UNDP.
- \*Myint, H. (1958). The classical theory of international trade and the developing countries, *Economic Journal* 68(270): 317-337.
- \*Findlay, R. and M. Lundahl (1994). Natural resources, vent-for-surplus, and the staples theory, in G. Meier (Ed.), *From Classical Economics to Development Economics*.

### 14. Income distribution, poverty and inequality

Week 15:

- Ros, J. (2016). Ch. 16.
- Era Dabla-Norris, et al. (2015). Causes and Consequences of Income Inequality: A Global Perspective. IMF Staff Discussion Note.
- Milanovic, B. (2012). Global inequality recalculated and updated: The effect of new PPP estimates on global inequality and 2005 estimates. *Journal of Economic Inequality*, 10(1): 1-18.
- Van, d. W., and B. Milanovic (2014). Inequality is bad for growth of the poor (but not for that of the rich), World Bank, Policy Research Working Paper Series 6963.
- \*Hulme, D. (2014). Poverty in Development Thought: Symptom or Cause. In B. Currie-Alder, R. Kanbur, D. Malone and R. Mehora (Eds.), *International Development: Ideas, Experience, and Prospects* pp: 81-97, Oxford: Oxford University Press.
- \*Stewart, F. and E. Samman (2014). Inequality and Development: An Overview, in: Currie-Alder et al., pp. 98-115.

**Tentative Schedule**

<b>Week</b>	<b>Date</b>	<b>Section</b>
1	20-Aug	Introduction
	22-Aug	1
2	27-Aug	1
	29-Aug	2
3	3-Sep	2
	5-Sep	3
4	10-Sep	3
	12-Sep	Guest lecture
5	17-Sep	4
	19-Sep	4
6	24-Sep	<b>5</b>
	26-Sep	5
7	1-Oct	6
	3-Oct	6
8	8-Oct	6
	10-Oct	7
9	15-Oct	7
	17-Oct	8
10	22-Oct	8
	24-Oct	9
11	29-Oct	9
	31-Oct	10
12	5-Nov	11
	7-Nov	11
13	12-Nov	12
	14-Nov	12
14	19-Nov	13
	21-Nov	14
15	26-Nov	14
	28-Nov	Thanksgiving
16	3-Dec	Presentations
	5-Dec	Presentations