

THE UNIVERSITY OF WISCONSIN-MILWAUKEE
Department of Economics

Economics 353online

Economic Development: Theory and Policy

Spring 2019

Instructor: **Dr. Hamid Mohtadi**

Course begins January 22 2019 and ends May 11th 2019

email: mohtadi@uwm.edu

Office hours: Th: 2-3:30, Bolton Hall, room 876

Syllabus

Important Note: All the material for this course, such as power point presentations and exams, are on D2L. Please make sure you are very familiar with this tool. For more information check the following URL, <http://uwmltc.org/>, or call the D2L office at 229-4319 or the student help desk 229-4040. You are responsible for knowing how D2L works.

This course provides an excellent chance to see and apply what you have learned in microeconomics and macroeconomics to address real problems and challenges.

Economic development analyzes economic and social challenges facing developing world, from China, India and the Middle East, to Africa and Latin America. It discusses how economic and social policies can be used to address these challenges. The course has two aims: To describe the economic experience of developing countries covering issues such as migration, globalization and trade (all are hot topics today), corruption, sources of economic growth, technology, education, inequality, poverty, women and development, illiteracy, health, and other topics; to analyze their causes and consequences by applying concepts from macro and micro-economics. It then shows how economic policies can address many of these problems.

Majority of the earth's populations inhabit what has been called the “underdeveloped,” or the “developing” world. These populations often have had rich and deep cultural heritage, long and fascinating histories, and most importantly, *highly developed* economies in their past. Examples from the New World include Peru and Bolivia’s Incas, Mexico’s Aztecs, and from the “old world” such as China, India, Persia, Egypt, Iraq, Ethiopia, just to name a few. Yet these countries have now become “less developed,” sometimes economically, sometimes technologically, and often institutionally. This has been attributed partly to their colonization experience under the Europeans since the Renaissance. The question now is how to bring about conditions so that these countries may prosper and develop as today’s developed nations have. This course attempts to answer this question.

A good understanding of micro and macroeconomics is important. Knowledge of basic algebra will be helpful.

INSTRUCTIONS (READ CAREFULLY)

This is an intensive online course with its pluses and minuses. The positives are flexibility, access, broad reach, etc. The minuses are: 1) lack of context without the face-to-face class discussions. To address this limitation, it is necessary, and indeed a must, to actually buy (or rent) the textbook for the course (see below). I have tried hard to make the power point presentations as complete as possible. But for hard-to-follow parts, you'll need the book. 2) Timing: Since you won't be coming to regular class times, the regular discipline and sequence of studying is lost. To address this limitation, I have designated, not only per-week material to cover, but even per-day material to cover. The idea will be that you would meet 2 times a week for 1.5 hours each time, for an over the course of the semester. So, the syllabus mimics that structure with each week's material being divided into 2 days. One thing to note: Each week's material will be available on Friday of the week before, but not earlier. That is meant to provide the discipline and sequencing that is needed for an online class.

Several of the lectures, those which are a bit more complicated or analytical, **are accompanied with voice**. When this option is available it can be displayed in any media (desktop, i-phone, apple, etc.). Same lectures are also available without voice. But I would encourage you to view the versions with voice.

There are 4 exams in the course and at this point 4 homework assignments. The exact week or period when the exams or assignments become available is specified below in the course syllabus. The amount of time is either 100 minutes for first three or longer for the last exam. When the time is up, the test site will close on you. But first you'll get warning. At the end of the exam, please make sure that you actually push the submit bottom. Also, for each multiple choice question that you answer, you must say save. *To access the exams, you must have completed the lectures of that week; otherwise it won't let you to do that.* A day or two after the test window closes, you'll be able to see which questions you did not get right and what was the right answer, along with the test statistics.

The first 3 tests will each have 20% weight and the last will have 28% weight. The 4 assignments will have 12% weight all combined. Also, I tend to follow my own lectures in preparing the exams. So, in any conflicts my presentations rule.

All the lectures are on D2L in the form of Power Points. I strongly recommend that you study these in the **slide show mode** because there are many animations that I use as a teaching tool to convey the concept. Once you understand this, of course you can copy and print them. But still make sure to watch them in the slide show in that format.

The following textbook (12th edition) is assigned. **But any older edition will be ok.** However, the syllabus will use the page numbers from **this edition**. If you buy an older copy you'll have to find your own pages to correspond to these. You can buy/rent/get ebooks for the 12th edition (or earlier ones) via uwm.ecampus.com. You can also use the common sites such as Amazon, etc.

Textbook

Michael Todaro and Stephen Smith. Economic Development Addison Wesley Longman (New York, 2014) 12th Edition.

Note: Information on Economics Department policies on participation by students with disabilities, accommodation for religious observations and active military duty, academic conduct, complaint procedure, grade appeal procedures and other standing policies (e.g., sexual harassment) is available in the main office of Economics Department, Bolton Hall Room 802.

COURSE OUTLINE

Notes: 1. Optional readings are marked by (*). 2. Reference to sources are based on the 12th edition. 3. Each week is presumed as if it consisted of two class times. Lectures are numbered as follows: For example lecture 2.1 means week 2, day 1. Sometimes you have a third number. For example lecture 3.1.1 and 3.1.2 means that week 3, day 1, has *two* lectures associated with it, lectures 3.1.1 and 3.1.2.

Note: The online power point material must be read in conjunction with the course book. Otherwise, there will not be a context for the material and they may not make much sense. Also, when there are differences in treatment of a topic between the book and the slides, the slides will govern. One such example is on Harrod-Domar growth model under lecture 2.5.

Read the Syllabus carefully, especially the boldface fonts.

I. BASICS: BACKGROUND, DEFINITION, EVIDENCE

Week 1: Jan 22-25

Day 1

Lecture 1.1: Economics, Institutions and Development (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. How the other half live? Todaro and Smith, Ch. 1, pp. 4-9
- c. Definition and Basic Concepts. Todaro and Smith, Ch. 1, pp. 9-29

Day 2

Lecture 1.2: Comparative Economic Development-PART I (PPT on D2L)

Topics include: Characteristics of underdevelopment; Purchasing Power Parity (PPP) index as a measure of internationally comparable per capita incomes

Sources:

- a. Extensive Instructor notes (power points) .
- b. Todaro and Smith, Ch. 2, pp. 40-49.

Week 2: Jan 28-Feb 1

Day 1

Lecture 2.1: Comparative Economic Development-PART II (PPT on D2L)

Topics include: Additional characteristics of underdevelopment; overview of human capital; poverty and health; Human Development Index (HDI)

Sources:

- a. Extensive Instructor notes (power points)
- b. Todaro and Smith, Ch. 2, pp. 49-62

Day2

Lecture 2.2: Comparative Economic Development-PART III (PPT on D2L)

Topics include: Still more characteristics of underdevelopment; population growth; urbanization; geography vs. institutions debate

- a. Extensive Instructor notes (power points)
- b. Todaro and Smith, Ch. 2, pp. 63-80 (up to section 2.6)
- c. Recommended readings (available on D2L):

* Acemoglu, D. "Root Causes: A Historical Approach to Assessing the Role of Institutions in Economic Development," Finance and Development, 2003 (June): 27-30.

* Rodrik, D. and A. Subramanian. "The Primacy of Institutions," Finance and Development, 2003 (June): 31-34.

*Sachs, J. "Institutions Matter but not for Everything." Finance and Development, 2003 (June): 38-41.

II. SELECT COUNTRY EXPERIENCES: HISTORY, ECONOMICS AND TRADE POLICIES

Week 3: Feb 4-8

Day 1

Lecture 3.1.1: Select Country Experiences: Brazil (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, pp. 30-35

Lecture 3.1.2: Select Country Experiences: Taiwan, South Korea and China

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, pp. 663-668 (Taiwan), pp. 142-143 (South Korea), pp. 200-209 (China)

Day2

Lecture 3.2.1: Latin America & East Asia: Comparison and (Trade) Policy Differences (PPT on D2L)

Source: Instructor Notes (power points)

Lecture 3.2.2: Economic Analysis of Trade Policies (PDF on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, p. 78.
- c. Also recommended: Todaro and Smith pp. 632-641

Lecture 3.2.3: Trade Policy and Inequality (PPT on D2L)

Source: Instructor notes (power points). These notes are not found in the text.

Note 1. Effect of Trump's Trade policies on Wisconsin economy (listen to my interview on WPR) (in D2L)

Note 2: UWM economist explores consequences of tariff-driven trade war (read my interview at UWM website) (in D2L)

Exam #1: Opens end of week 3. Open period: Fri. Feb 8, 8:00 am to Tues. – Feb 12, 11:59 pm. Covers material in Part I only (including Lecture 2.2). Exam can be taken any time during this window. Exam time 100 minutes. This is multiple choice exam. Weight in the course: 20%

Assignment #1: Look for it after the exam 1 notice in Contents section of D2L. This is a very short descriptive (graphics oriented) assignment with immediate relevance to policy. It will be available in week 3 on Saturday 2/9 and is about trade policies. It will be due Saturday Feb 16 at 11:59. Please submit the assignment via the dropbox. This means you will either do this in a word-processing format, or in pen and then scanned, and submit it. Weight in the course = 3%

III. CLASSICAL THEORIES OF DEVELOPMENT

Week 4: Feb 11-15

Lectures 4.1 and 4.2: classical theories of development (PPT on D2L) (This is large transparency that is broken into two days and 5 segments)

Day 1

1. Early Models of Economic Growth: Linear Stages Theory & Harrod-Domar Growth Model

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 3, pp. 118-124.

Day 2

Assignment #2: Look for it at the end of week 4 module in D2L Contents. This will cover week 4 material. It will be due Saturday Feb 23 at 11:59. The assignment deals only with the Harrod-Domar Growth model to give you a chance to do the minor algebra there before you see it in exam 2. Please submit the assignment via the dropbox. This means you will either do this in a word-processing format, or in pen and then scanned, and submit it. Weight in the course = 3%

2. Structural Approaches: The Dual Sector Model of Lewis

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch.3, pp. 125-129.

3. The Dependency Perspective

Source:

Todaro and Smith, Ch.3, pp. 131-133.

4. New Neoclassical Theories: Free Markets, Public Choice and Market Friendly approaches

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 3 (section 3.5), pp. 135-137 up to but not including Neoclassical Growth Theory)

5. Reconciling the Differences: Role of Private and Public Sector

Sources:

- a. Instructor Notes (important: these notes are not found in the book)
- b. Todaro and Smith, Ch. 3. Pp. 131-132.

IV. ECONOMIC GROWTH AND CONVERGENCE/ DIVERGENCE OF THE WORLD ECONOMIES

(Single presentation for the week)

Week 5: Feb 18-22

Lecture 5: Solow (Neoclassical) Growth Model and Convergence Hypothesis (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Appendix 3.2, pp. 155-158 (on Solow Growth Model)

Week 6: Feb 25-March 1

(Single presentation for the week)

Lecture 6: The Convergence Divergence Debate (PPT on D2L)

(Due to difficulty of the following 3 *optional* readings, the class lecture notes will suffice, but the background research papers are recommended for further reading and are all on D2L under in this section)

Sources:

- a. Instructor notes (power points)
- b. Also, see Todaro and Smith, Section 2.6 pp. 80-85 (on Convergence-Divergence)
- c. *Baumol, William, "Productivity, Growth, Convergence, and Welfare," American Economic Review, 1986, Vol. 76, pp. 1072-1085.
- d. *De Long, Bradford "Productivity, Growth, Convergence, and Welfare: Comment," American Economic Review, 1988, Vol. 78, no. 5 (Dec.) pp. 1138-1154.
- e. *Baumol, William, and Wolff, "Productivity, Growth, Convergence, and Welfare: Reply," American Economic Review, 1988, Vol. 78, pp. 1155-11159

Exam #2: Opens end of week 6. Open period: Fri. March 1, 8:00 am to Tues. –March 5, 11:59 pm. Exam can be taken any time during this window. Exam time 100 minutes. This is a multiple choice exam. It covers ALL of the material including Part III (that is including those in Exam # 1) but NOT part IV. Weight in the course: 20%

V. CONTEMPORARY MODELS OF DEVELOPMENT AND UNDERDEVELOPMENT

Week 7: March 4-8

Day 1

Lecture 7.1: The New (Endogenous) Growth Theory: (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 3, Appendix 3.3 pp. 159-162

Day 2

Lecture 7.2.1: Underdevelopment as a Coordination Failure Problem & Multiple Equilibria: Theory and Policy (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 4, pp. 164-171

Lecture 7.2.2: Growth Diagnostics (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 4, pp. , 193-197
- c. *Ricardo Hausmann, Bailey Klinger, Rodrigo Wagner “Doing Growth Diagnostics in Practice: A ‘Mindbook’” Harvard Center for International Development, Working Paper No. 177 September 2008

VI. POVERTY INEQUALITY AND DEVELOPMENT

Week 8: March 11-15

Day 1

Inequality

1. Lecture 8.1. Measuring Inequality (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 4, pp. 216-225

Assignment #3: Look for it after day 1 in week 8 module in D2L Contents. This will be due Saturday March 30 at 11:59 pm. It deals only with the distribution of income calculations and graphs. This assignment gives you a chance to get practice in the calculations that you will also see in exam 4. Please submit the assignment via the dropbox. This means you will either do this in a word format, or in pen and scanned, and submit it. Weight in the course = 3%

Day 2

2. Social Implications. What is so bad about Inequality?

Source:

Todaro and Smith, Section 5.3, pp. 230-232 (up to “Dualistic Development). (Note: There is no Instructor notes or Power Points on this topic. Must read the book)

3. Lecture 8.2 Inequality, Development and Growth (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 5, pp. 235 (beginning with Kuznets Inverted U Hypothesis)-240 (up to Absolute Poverty)

No classes Spring Recess (March 17-24)

Week 9: March 25-29

Poverty

Day 1

Lecture 9.1 Poverty: Measure (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Section 5.4, pp. 240-248 (up to Growth and Poverty)

Day 2

Lecture 9.2 Poverty: Evidence, Relation to Growth, Policy

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Section Ch. 5, pp. 248-261

VII. POPULATION GROWTH

Week 10: April 1-5

Day 1

Lecture 10.1 Population Growth and Economic Development _Part I (PPT on D2L)

Topics include:

1. Population in History
2. The Hidden Momentum of Population Growth
3. Population Growth Rates in Developed and Developing Countries
4. Demographic Transitions

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Sections 6.1-6.3 pp. 284-296

Day2

Lecture 10.2 Population Growth and Economic Development _Part II (PPT on D2L)

Topics include:

1. Malthusian versus Modern Theories
2. Microeconomics of Fertility
3. Debate on Population Growth
4. Policy Analysis and Recommendations

Exam #3: Opens end of week 10. Open period: Fri. April 5, 8:00 am to Tues. April 9, 11:59 pm. Exam can be taken any time during this window. Exam time 100 minutes. It covers material in Part IV and Part V only. This is a multiple choice exam that covers material since Exam # 2. Weight in the course: 20%

VIII. URBANIZATION AND MIGRATION

(Single presentation for the week)

Week 11: April 8- 12

Lecture 11. Urbanization and Rural Urban Migration (PPT on D2L)

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 7, pp. 330-368

Assignment #4: Look for it at the end of week 11 module in D2L Contents. This will be due Sat April 20 by midnight. It deals only with migration calculations to give you a chance to do the calculations there before you see it in the exam. Please submit the assignment via the dropbox. This means you will either do this in a word-processing format, or in pen and scanned, and submit it. Weight in the course = 3%

IX. ENVIRONMENT AND DEVELOPMENT

Week 12: April 15-19

Lecture 12. Environment and Development: Part I (PPT on D2L)

Topics include:

1. Relation between development and the environment: Is there an environmental Kuznets Curve?
2. Six win-win policy for better environment and more growth in developing countries

Source: Instructor Notes (power points)

Week 13: April 22-26

(Single presentation for the week)

Lecture 13 Environment and Development: Part II (PPT on D2L)

Topics Include:

1. Sustainable development and environmental accounting
2. Rural Development and the Environment
3. Global Warming and Climate Change

Sources:

- a. Instructor Notes (power points)
- b. Todaro and Smith, Ch. 10, except section 10.4

Week 14: April 29-May 3

(Single presentation for the week)

Lecture 14 Environment and Development: Part III (PPT on D2L)

Topics Include:

1. Economic Models of Environment
2. Common Pool Resources
3. The Tragedy of the Commons
4. Pollution Externalities and Taxation
5. Policy Options

Sources:

- a. Instructor notes (power points)
- b. Todaro and Smith, Ch. 10, except section 10.4

X: ECONOMICS, INSTITUTIONS AND DEVELOPMENT

Week 15: May 6-9 (last day of classes)

(Single presentation for the week)

Lecture 15: Economics, Institutions and Development (PPT on D2L)

Source: Instructor notes (power points) extracted from select parts of Todaro and Smith, Ch. 11.

Exam #4-Final Exam: Open period: Friday May 10, 8:00 am to Tues May 14, 11:59 pm. Exam can be taken any time during this window. This is longer exam. Exam time will be 120-150 minutes depending on the # of questions. Exam covers the lectures since Exam # 3. Weight is 28%

Happy Summer Break

