

Fall 2004 Economics 340: Economics of Less Developed Countries Professor Nugent

Class Meeting: M, W 10-11:50 KAP 156

Office Hours: M:12-2:00, T: 12-2, and by appointment KAP318C

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Note: Every student must make an appointment for a meeting with the instructor in his office during the first seven weeks of the course. In class students should not hesitate to ask questions as soon as they hear something they don't understand. That is a good way to learn --and to keep awake!! If you have questions, you are not likely to be the only one.

This syllabus has been prepared on August 17. Circumstances may arise making it necessary to make adjustments to this syllabus during the course of the semester.

Disabilities: Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure that this letter is delivered to me as early in the semester as possible. DSP is open M-F 8:30-5:00 and is located in Student Union 301. with phone (213) 740-0776.

Grades and Announcements will be on learn.usc.edu

TA: Will Kwon KAP 363 363 #8 Office Hours: 9-10 M,W
Tel.: 740-3524 or 740-8335 email:wkwon@usc.edu

Purpose of Course: To introduce students to the basics of development theory and policy. Fundamental to this are issues of definition and measurement, testing of theories, familiarity with problems of both short-run and long-run, applications of both micro- and macro-economics, interdisciplinary analysis, use of social benefits cost analysis, sources and uses of data for use as a country desk officer of a bank or international agency.

Course Abstract: Causes of economic underdevelopment; theories of development including historical, institutional, structural, ideological, technological, and cultural. Sources of government and market failures, the role of trade, international factor movements, population growth, education, capital formation, technological change and institutional change in economic growth, income distribution and poverty, sectoral differences and the explanations of country differences in performance: What makes for an Asian "Miracle" and a Sub-Saharan Africa "debacle"?

Relation of Development Economics to other Courses: In some respects, this course is conceptually the most challenging one in the economics curriculum. Most courses in economics deal with short run issues and partial equilibrium analysis. Development economics deals with long-run issues and hence there are many more variables which are potentially endogenous to be explained in the analysis. Technological change, institutions, population, labor and capital, health, education and even culture and political systems are all examples of important variables which change over time and which need to be explained. Many change in an essentially simultaneous way, suggesting that general rather than partial equilibrium analysis may be most appropriate. Given the relevance of culture and political factors and systems, the scope of the analysis is necessarily much broader than in conventional economic analysis. Yet, all these considerations make the analysis much more difficult and suggest that the analysis has to be modified

substantially to deal with the complexities of development. It is a very challenging field, and as a result more Nobel prizes in economics have been awarded for contributions to this field than for those in any other field.

Textbooks: Debraj Ray (DR) *Development Economics*: Princeton University Press 1998.
Michael Kevane (MK) *Women and Development in Africa: How Gender Works*. Rienner 2004
Supplementary Reading: World Bank: *World Development Reports various years*

Reserve Books: In the Leavey Library there will be the above books as well as materials from Benefit-Cost Analysis for your short assignments. Anyone wanting to read some classics in the field should read works by Albert O. Hirschman, Ragnar Nurkse, Hans Singer, Peter Bauer, Gunnar Myrdal, etc. I urge you to pick some of these up. I will be talking about some of these people in class.

Journals and magazines: for contemporary economic news in different developing countries: you might want to consult such magazines as *the Economist*, *the Asian Wall Street Journal*, *The Far East Economic Review*, *Middle East Economic Review*, and various other region-specific magazines. More serious journals specializing in Development Economics which are generally readable (i.e., w/o a great deal of mathematics) are *World Development*, *Economic Development and Cultural Change*, *the Journal of Development Studies*, *the World Bank Economic Review*, and *World Bank Research Observer*. There are also various web sites of interest. Somewhat more sophisticated journals are: *the Journal of Development Economics*, *Review of Development Economics*

Sources of Data: National Accounts: *Yearbook of National Account Statistics*, *Yearbook of International Monetary Statistics*, Public Finance: International Monetary Fund: *Yearbook of Government Finance Statistics*, International Trade: United Nations, *Yearbook of International Trade Statistics*, UNCTAD, *Statistical Yearbook*, Demographic and Labor: *United Nations Demographic Yearbook*, ILO, *Yearbook of Labor Statistics*, *World Employment Social*, Gender, Poverty, Income Distribution: World Bank: *Social Indicators of Development*, *UNDP*, *Human Development Report*, *UNESCO Yearbook*, Agriculture: *FAO Yearbooks*; Industry: United Nations, *Yearbook of Industrial Statistics*, *UNIDO Industry and Development Global Report*. *VKC and I believe the Business School libraries have CD ROMs of World Development Indicators put out by the World Bank.*

Various: *World Bank World Development Reports*, *United Nations Statistical Yearbook*.

Also the World Bank and each of these and other international organizations have an increasing amounts of information, reports and papers available on-line through their websites.

Grading: Midterm Exam: Monday, October 4 (25%)

Term Paper Due Wed December 1 before class 10AM (25%)

Final Exam: Monday December 13, 8-10 AM (25%)

Short Papers, quizzes and class participation: (25%) (only three of quizzes and short papers will count (i.e., you can drop the lowest score)

Quiz #1 Wednesday September 8 (6)

Short Paper Wednesday Oct 20 (6)

Quiz #2 Wednesday Nov. 3 (6)

Short Paper Wednesday Nov. 15

Debates, class participation (7)

Grading Policy and Past Performance: No curve is used; therefore, in principle, everyone can get A's or B's (but also everyone could also get D's and F's). While there is occasionally a brilliant student who can master development economics by reading the textbooks and outside reading, and there are some students with perfect attendance who are unable to pass the course exams, experience in this course has shown a very high correlation between performance and class attendance, especially because classes will put emphasis on different things than the text. There are no substitutions, such as research papers done at the end of the course, instead of an exam. The exams are non-cumulative and heavily weighted toward problems and graphs. **Mid-term and final exams can be made up only on the basis of a serious illness, not simply a note saying you consulted a doctor on the day of the exam. Even if you should qualify for a makeup exam, makeup exams are always more difficult than the original ones inasmuch as the student will have had more time to prepare, and you are not eligible for bonus points that are normally given. Anyone knowing in advance of a necessary absence from an exam, e.g., for an interscholastic competition or a family funeral, can sometimes arrange to take the exam in advance as long as sufficient advance notice is given.**

Debates: Each student must participate on the pro or con side of one pre-announced debate on economic policy, of which there will be five, most of which will be held in the month of November and early December. Typically, there will be three or four students assigned to each side of the debate.

Short Papers: Each student will write a short paper on specific issues on a particular developing country of your choice. Only one student per country will be allowed and the country should not be one of your birth or extended residence to assure that nobody has a special advantage. A paper arriving late but within 24 hours of the due date will be discounted 1 point (out of 6) Papers delivered after that will not be accepted and graded 0..

Academic Integrity Warning: Because of unfortunate recent experience at USC with actual or suspected violations of academic integrity, the Dept. of Economics and this instructor in particular will be vigilant for suspected violations and very strict in enforcement of sanctions including recommending dismissal from the university. For details on the rules and guidelines see SCAMPUS. **On papers, you must be careful to attribute any quotes and carefully detail your sources. As a result, at exams it behooves every student to avoid even the slightest suspicion by bringing no notes to exams and sitting far from other students at exams.**

COURSE OUTLINE AND SCHEDULE

1. Introduction to the course and to development economics:
2. No class on Monday Sept. 6 Labor Day
3. Definitions of Development, Neoclassical Growth Theories **DR** Ch 2,3.
4. New Growth Theory Ch 4
5. History, Expectations, Linkages: Dynamics Ch 5
6. Inequality and Its Measurement Ch. 6
7. Inequality and Growth: The Links between Them Ch 7
8. Poverty and Underdevelopment Ch. 8
9. Population Growth Ch 9
10. Dualism and Migration Ch 10

11. Agriculture and Land Ch 11, 12
- 12 Property Rights
13. Labor Markets Ch 13
14. Credit and Insurance Markets Ch 14,15
15. Trade and Trade Policy, Ch 16, 17, 18
- 16 Sustainable Development
17. Gender Issues MK Ch 3-8
18. The Demise of Sub-Saharan Africa MK Ch 1
19. Health and Education MK 9
20. Development Projects for Women MK 10
21. Crime, Terrorism, Civil War
22. Governance: National and International
23. Nobel Prize Winners and Other Great Names in Development Economics: Smith, Frisch, Tinbergen, Kuznets, Schultz, North, Sen, Myrdal, Hirschman, Rosenstein-Rodan, Lewis, de Soto: What did they do? What did they say? Were they right or wrong?

Short Paper Assignment #1 Wed. October 20 (Prior to Class). After having the country of your choice approved:

- (1) Find a complete time series (from 1960 or 1970 to as close to the present as possible) of GDP data in current and constant prices for that country and calculate the rate of growth in real terms. What has been the rate of inflation? Show your work.
- (2) Identify important changes in the structure of this economy over this period by calculating the share of investment, national savings, and exports in GDP. (The data in current prices should be used for this.) What do you think may explain these changes and why?

Approximately 3 pages of text plus the tables on each (1) and (2) Be sure to indicate your sources in detail. You may want to use online sources from the International Monetary Fund, World Bank, (World Development Indicators) etc.

Short Paper Assignment #2 Monday November 15 Prior to Class (Same Format as in Assignment # 1)

- (1) Present the most comprehensive data on income inequality and poverty in your selected country over time. Interpret what has been happening to inequality and poverty. Have they been moving in the same direction? Why or why not? What factors explain the high degree of income inequality and poverty in the country? Explain what policies the country has adopted to deal with the problems. Have they worked? What action would you recommend to deal with them? What disadvantages might arise and what might be done about these? To what extent may population growth and the age structure of the population played a role?
- (2) Analyze the structure of the country's exports over the period 1960 to present. What explains the pattern and changes therein over time. What have been the benefits and costs of this type of pattern? What policies of the country have affected this pattern as well as the relative importance of exports in GDP over time? How do you know this? Is the country a member of the WTO? If not, what might be the benefits and costs thereof? Has the country ever been associated with a

regional trading arrangement such as a free trade area or a common market? Has the experience been positive? If it has not been should it join some such group? Why or why not?

Debates November 22, 24, 29

Last Class Wednesday Dec 1

Final Exam Dec 13 8-10AM