

ECON 342 Economic Development of the Middle East Spring 2006 Mr. Nugent
Class Meetings: M, W 2:00-3:50 Class: 26675D KAP 163
Office Hours: M, W. 4-6 PM, T 3-4 PM and by Appointment KAP 318C

This syllabus has been prepared on January 6. Circumstances may arise as to require revision.

Abstract: Historical and comparative analysis of economies of Middle Eastern countries: institutions, resources, trade, finance, fiscal policy, income distribution, population, migration.

Prerequisite: Econ 203 but preferably also with 205 and 303.

Purpose and Description:

This course is designed to introduce the students to the salient features and main development challenges facing Middle East economies. Its primary objective is to provide a critical understanding of the main issues, with emphasis on the methodology and substance of the topics covered. Analytical tools appropriate for analyzing the issues will be introduced.

Course Requirements and Grading:

Size of the class permitting, the course will be conducted in a format closer to that of a seminar. The Monday classes will be devoted to a brief outline of the reading and the development of relevant analytical tools. The Wednesday classes will normally be devoted to discussing of the reading assigned for that week and the application of the analytical tools developed. Students will be expected to thoroughly cover the readings prior to the Wednesday session and to actively take part in class discussions. The grade distribution will be as follows: 25% for class participation (including quizzes), 25% for term paper (10-20 pages long), 25% for the mid-term and 25% for the final. This distribution may be reconsidered in due course. Grading is on an absolute basis. No curve is used.

Class participation is a catch-all term for active attendance, being prompt in doing readings, raising questions and comments, etc. Attendance is vitally important since the Monday and Wednesday sessions will be very different and the Monday sessions dealing with concepts and tools that are not developed in the textbooks or reference books but sometimes developed in articles referenced. It also includes written assignments to be brought to class and short quizzes in class.

Term Paper: The term paper should be on a problem or issue in the historical or contemporary experience of a particular Middle Eastern country or alternatively, it could be comparative (i.e., across two or more countries of the region and elsewhere). It should be focused, analytic, reflect critical thinking of materials read and must be well-documented with complete references given. Internet material should be used with care and very sparingly. The topic for the term paper must be approved by the instructor. A 1-2 page draft of what you propose to do must be submitted by Wednesday Feb. 27 at class. It is highly recommended that you talk this over with the instructor prior to this deadline. Paper due Monday April 24 with presentations in class.

Country Specialization: Pairs of student must select and have approved a choice of a North African or Middle Eastern country (Broadly defined). No more than two students will be allowed to work on a single country and it should be a country other than one in which you have been born or lived in extensively. Some projects may be done jointly but the term papers must be on different topics even if for the same country.

Students with 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 documentation is filed. Please be sure that the letter is delivered to me as early in the semester as possible. DSP is open M-F 8:30-5PM in Student Union 301. Their phone number is 213 740-0776.

Mid-term and final exams: Both exams will be designed to test the students' ability to think and write creatively not to memorize. They will test both material from the Monday analytic presentations and the reading material and discussion sessions.

Academic Integrity Warning: Because of unfortunate recent experience at USC with actual or suspected violations of academic integrity, the Department 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. As a result, it behooves every student to **avoid even the slightest suspicion by bringing no notes to exams, sitting far from other students and keeping your eyes strictly focused on your own exams.**

Textbooks: (1 day reserve)

Clement M. Henry and Robert Springborg, *Globalization and the Politics of Development in the Middle East*. Cambridge University Press. 2001

Roger Owen and Sevket Pamuk, *A History of Middle East Economies in the Twentieth Century*. Harvard University Press 1999.

Michel Kevane 2004. *Women and Development in Africa: How Gender Works*. Lynn Rienner

Key Journal Articles:

Timur Kuran 2001 "The Provision of Public Goods Under Islamic Law: Origins, Contributions , and Limitations of the Waqf System" USC CLEO Research Paper No CO1-13

Timur Kuran 2002 "The Islamic Commercial Crisis: Institutional Roots of Economic Underdevelopment in the Middle East" Journal of Economic History USC Center for Law, Economics and Organization Research Paper no. C01-12

Corden, W.M. 1984 Booming Sector and Dutch Disease Economics: Survey and Consolidation, OEP 36 359-380. (p)
<http://www.jstor.org/view/00307653/di015361/01p00053/0?currentResult=00307653%2bdi015361%2b01p00053%2b0%2c01%2b19841100%2b9995%2b80158899&searchID=8dd5533b.10612518310&frame=noframe&so>

[rtOrder=SCORE&userID=807db963@usc.edu/01cc9933410050e192c2&dpi=3&viewContent=Article&config=jstor](http://www.jstor.org/view/00028282/di950083/95p00956/0?currentResult=00028282%2bdi950083%2b95p00956%2b0%2c01%2b19740600%2b9995%2b80259399&searchID=8dd55340.10614251162&frame=noiframe&sortOrder=SCORE&userID=807db963@usc.edu/01cc9933410050e192c2&dpi=3&viewContent=Article&config=jstor)

H Askari, V. Nowshirvani and M. Jaber 1997. *Economic Development in the GCC: The Blessing and the Curse of Oil*. Greenwich CT: JAI Press.

Yano and Nugent "Aid, Non-Traded Goods and the Transfer Paradox in Small Countries", *American Economic Review*, 1999

Kuran, Historical Reflections on the Demise of Development in The Middle East Forum 5 Why the Middle East is Economically Underdeveloped: Historical Mechanisms JEP 2004

Tarik Yousef "Development, Growth and Policy Reform in the Middle East and North Africa since 1950 *Journal of Economic Perspectives*, Summer 2004

Selected Chapters from Hashem Pesaran and Jeffrey B. Nugent, eds *Explaining Growth in the Middle East*, forthcoming Elsevier, Contributions to Economic Analysis Series

Especially Hadi Esfahani *The Political Economy of Growth in MENA*

Anne Krueger 1974 "The Political Economy of the Rent-Seeking Society" *AER* June 1974.

<http://www.jstor.org/view/00028282/di950083/95p00956/0?currentResult=00028282%2bdi950083%2b95p00956%2b0%2c01%2b19740600%2b9995%2b80259399&searchID=8dd55340.10614251162&frame=noiframe&sortOrder=SCORE&userID=807db95c@usc.edu/018dd553400050c5de2e&dpi=3&viewContent=Article&config=jstor>

Acemoglu, Johnson and Robinson 2001. "The Colonial Origins of Comparative Economic Development: An Empirical Investigation *AER* 91 (5) 1369-1401.

Montalvo and Renal-Querol 2005. "Ethnic Polarization, Potential Conflict and Civil Wars", *American Economic Review* 95 (3), 796-816.

Alan B. Krueger and Jitka Meleckova 2003. "Education, Poverty and Terrorism: Is There a Causal Connection?" *Journal of Economic Perspectives* 17 (4), Fall 2003. 119-144.

Important Reference Books to be put on reserve in Leavey Library: (2 hour reserve)

Abdel-Khalek, Gouda (2001) *Stabilization and Adjustment in Egypt: Reform or De-Industrialization*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar.

El-Ghonemy, M. Riad (1998) *Affluence and Poverty in the Middle East*. London and New York: Routledge.

Heisel, Donald (1997) *The Middle East and Developments in a Changing World*. Cairo Papers in Social Science, Cairo: American U in Cairo Press.

Hakimian, Hassan and J.B. Nugent, eds., 2003. *Trade Policy and Economic Integration in the Middle East and North Africa: Economic Boundaries in Flux*. London and NY: Routledge Curzon.

Ibn Khaldun 1379/1987. *The Muqaddimah: An Introduction to History* (translated by Franz Rosenthal, 3 Volumes. New York Pantheon Books.

H. Inalcik and D Quataert *An Economic and Social History of the Ottoman Empire*. Cambridge: Cambridge University Press.

Issawi, Charles 1982. *An Economic History of the Middle East and North Africa*. London: Methuen.

Kuran, Timur 2004. *Islam and Mammon*. Princeton U. Press

- Limam, Imad, ed. (1999) *Institutional Reform and Development in the MENA Region*. Cairo: The Economic Research Forum for the Arab Countries Iran and Turkey.
- Nabli, Mustapha K. and Jeffrey B. Nugent 1989. *The New Institutional Economics and Development: Theory and Applications to Tunisia*. Amsterdam: North Holland.
- Niblock, Tim and Rodney Wilson, eds. (1999) *The Political Economy of the Middle East. Vol. I: Economic Development*. An Elgar Reference Collection. Cheltenham, UK and Northampton, Mass: Edward Elgar.
- Owen, Roger 2000. *State, Power and Politics in the Making of the Modern Middle East*. London and New York: Routledge.
- Page, Jr., John M. (1997) *A Middle Eastern Miracle: development policy lessons from East Asia*. Cairo: The Egyptian Center for Economic Studies. Distinguished Lecture Series 4.
- Richards, Alan and John Waterbury 1990. *A Political Economy of the Middle East*, Westview Press.
- Shafik, Nemat, ed. (1998): *Prospects for the Middle Eastern and North Africa Economies: From Boom to Bust and Back?* New York: St. Martin's Press.
- The Economic Research Forum for the Arab Countries, Iran and Turkey (2002) *Economic Trends in the MENA Region, 2002*, Cairo, The American U in Cairo Press.
- United Nations Development Programme and Arab Fund for Economic and Social Development, 2002, 2004, Arab Human Development Report 2002, 2004. NY:
- Waterbury, John and Alan Richards (1998) *A Political Economy of the Middle East*, second ed. Boulder, Colorado: Westview Press.
- Wilson, Rodney (1995) *Economic Development in the Middle East*. London & New York: Routledge.
- World Bank (2003) "World Bank: MENA Region Strategy Paper."
- World Bank (2003) *Gender and Development in the Middle East and North Africa: Women in the Public Sphere*, MENA Development Report
- World Bank 2003 *Trade, Investment and Development in the Middle East and North Africa: Engaging the World, MENA Development Report*.
- World Bank 2003 *Better Governance for Development in the Middle East and North Africa*, MENA Development Report.

Volumes from the *Research in Middle East Economics Series*, Amsterdam: Elsevier esp.
The Economics of Middle East Peace: A Reassessment, S. Roy, ed, v. 3
The Economics of Women and Work in the Middle East and North Africa, M. Cinar, ed.v4
Food, Agriculture and Economic Policy in the Middle East and North Africa, H. Lofgren, ed.v
5
Money and Finance in the Middle East: Missed Opportunities or Future Prospects? S. Neaime
and N.A. Colton, eds, v 6
World Bank 2003 Jobs, *Growth and Governance in the Middle East and North Africa:
Unlocking the Potential for Prosperity*

World Economic Forum 2003. *The Arab World Competitiveness Report 2002-2003*.

Some Useful Websites:

World Bank <http://lnweb18.worldbank.org/mna/mena.nsf> has ample data and statistics on the countries of the Middle East and North Africa. This site is well laid-out and certainly worth a visit.

Geographic.org <http://www.geographic.org/> is an easy to navigate reference site featuring demographic information, key global rankings in areas such as energy, economy, etc., in addition to geographic information.

US Department of Energy <http://www.eia.doe.gov/emeu/cabs/cabsme.html> has valuable information on various aspects of energy resources in the Middle East.

Organization of Petroleum Exporting Countries (OPEC) <http://www.opec.org> is helpful for energy data for Middle East countries members in OPEC.

Library of Congress <http://lcweb2.loc.gov/frd/cs> provides detailed historical overviews.

CIA World Factbook <http://www.cia.gov/cia/publications/factbook/index.html> has coverage of all the basics.

Arab Social Science Research <http://www.assr.org/>

Middle East Review of International Affairs <http://meria.idc.ac.il>

Economic Research Forum <http://www.erf.org.eg/>

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Some Relevant Journals:

International Journal for Middle East Studies

Middle East Journal

Review of Middle East Economics and Finance

Tentative Outline

1. Introduction to the Course and the Region: The Geography and Early History of the Region The early civilizations of Mesopotamia and Egypt, The Israeli and Assyrian

- Empires and Persian Empires, the Arab Empires, Relative Decline of the Region, Backwardness, Ottoman Empire Special Visit by Professor Justin Lin
Special Issues: Explanations for economic rises and falls through the long history
2. 19th and Early 20th Century
 - Readings in Issawi and especially Part 1 of Owen and Pamuk
 - The New Independent States of Turkey and Egypt
 - Colonialism by the French, British and Italians
 3. Postwar WW II Period
 - Reading: Owen and Pamuk Part II
 4. Contemporary Period : Selected Issues
 - a. Owen and Pamuk Epilogue and Conclusion
 - b. Late and Feeble Reforms: Trade, Capital and Finance, Product Markets, Labor Markets
 - c. Political Economy of the Adjustment to changing circumstances and Reform: Reading Henry and Springborg on the Role of Governance Types
 - d. Governance Issues: The Political Freedom and other indexes: Reading World Bank Better Governance for Development in MENA 2003
 - e. Trade, Investment and Integration: Readings: World Bank , Trade, Investment and Development in the Middle East and North Africa 2003, Hakimian and Nugent 2003.
 - f. Gender and Social Issues, Inequality and Poverty: Readings World Bank Gender and Development in the Middle East and North Africa: Women in the Public Sphere, Arab Human Development Report
 - g. Business Organization: Prominence of Public Enterprise, Problems of SMEs and Regulation. Business Evaluations of Obstacles
 - h. Oil and Development: The Dutch Disease and Associated Problems
 - i. The problems of Labor Markets
 - j. The Problems of Capital Markets
 - k. Education and Health
 - l. The Role of the Military and Wars both International and Civil: The Determinants of Civil War
 - m. Suicide Bombings and Terrorism: What motivates them and what to do?
 - n. What economic policies should Iraq adopt? Why? What are the Pros and Cons?
 5. Relevant Analytical Techniques
 - a. Partial Equilibrium Welfare Analysis via Consumers Surplus
 - b. Production Functions and Factor Demand
 - c. Models of Financial Repression
 - d. Asymmetric information problems Adverse selection and Moral hazard
 - e. Transaction Costs
 - f. Theory of Collective action
 - g. Simple Macro Tools: Consumption and Saving, Balance of payments
 - h. Political Economy models
 - i. Factor Endowments and trade theory
 6. Applications of Analytical Tools to contemporary Problems
 - a. Why do MENA Countries Trade so Little?
 - b. Can the MENA Countries take advantage of their demographic window of opportunity

- c. Can the fall in income and rising unemployment that many MENA countries have experienced over the last decade or two, lead to economic policy reform?
- d. Under what conditions can non-democratic regimes that dominate most countries of the Middle East be induced to give up their political control powers and allow democratic processes and forces to emerge? If so will this help?
- e. How are education, poverty, income inequality and lack of democracy related to terrorism? What about the role of religion and military domination by world super powers and regional superpowers?
- f. Under what conditions do countries adopt growth-enhancing reforms? Under what conditions do growth-enhancing reforms actually work?
- g. Which countries seem most likely to experience civil war? Why?
- h. What motivates suicide bombers and terrorism and what can be done about it?

Schedule

Every student must make an appointment to meet with the instructor in his office during the first five weeks of class. For announcements, check the website “learn.usc.edu” for this class on a regular basis. Details on access will be given in class.

Mon Jan 23 Assignment 1: For the country of your choice: write a five page paper on the pre-19th Century economic history of the country. Identify relevant theories of the rise and fall .Also to be presented orally. You can work in pairs on this if you wish but such papers are graded more rigorously and should be somewhat longer but never more than 10 pages. **Short presentations in Class.** Late penalty 2 points per day.

Jan.27: Last Day to Drop class w/o Grade of W

Mid-Term Exam: Monday Feb 22 Based on Lectures to date plus Owen and Pamuk book. No make-ups permitted except with serious medical excuse. For those with other conflicts such as funerals, team sport competition, etc. can arrange to take the exam in advance as long as permission for such is granted and advance notice is given.

Term Paper Proposal Due Feb 27 1-2 page abstract identifying the issue, why it is important and perhaps understudied and what you will do to accomplish the objective of the paper. Should not be exclusively a literature survey and should make use of analytical tools.

Assignment 2: March 6 For your country, identify the major problem(s) that exist in the labor market, such as unemployment, informality, shortage, skill mismatch, etc. and explain causes and identify possible solution. Also to be presented orally, **March 6, 8.** Penalty for being late 2 points per day.

For those countries to which more than one student is assigned, one student should do the same for capital and financial markets.

Assignment 3: April 5: For your country explain what reforms in different markets or regulations have been undertaken and why others have not . What were the political economy forces at work?

April 7: Last Day to Drop with mark of W

Term Paper Due: April 24. Brief oral presentation. Penalty for being late 2 points per day

April 26: Last Class

Final Exam: Monday, May 8 2-4PM On all materials assigned and/or discussed since the Mid-term