



AMERICAN UNIVERSITY
WASHINGTON, DC

Department of Economics

ECON-661.01
Survey of Economic Development
January 10

Spring 2011
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Office hours: Thursdays 12:00–4:00. Classroom: Hurst Hall 211

Syllabus

Objectives

This course is concerned with economic development theory and policy. The course will trace the evolution of development policy from the state-led, import-substituting industrialization in the 1950s and 1960s to the resurgence of market-oriented policies in the 1980s. The first part of the course focuses on macroeconomics of development, analyzing the foreign exchange market, international trade, inflation dynamics, and financial markets. The second part of the course focuses on microeconomics of development, examining poverty, population, agriculture, and health.

All dates except for the final exam are subject to change. Additional readings may be assigned.

Textbooks

Todaro and Smith, *Economic Development*, 10th edition.

Eileen Stillwaggon, *Stunted Lives, Stagnant Economies*,

Reading Assignments

1. *Changing Paradigms* (January 13)

Larry Sawers, (2009) Chapter One, “Introduction,” Chapter Two, “The Reinvention of Development Economics,” Chapter Three, “Development Economics and the Role of the Government,” Chapter Four, “Development Economics and Export Pessimism,” Chapter Five, “Structuralism in the 1960s and 1970s,” Chapter Six, “Import-Substituting Industrialization,” and Chapter Seven, “The Return of Liberalism,” *Economic Development Policy*.

Moises Naim, 1999 “Fads and Fashion in Economic Reforms: Washington Consensus or Washington Confusion?” Working Draft of a Paper Prepared for the IMF Conference on Second Generation Reforms, Washington, D.C.

Dani Rodrik, 2006 “Goodbye Washington Consensus, Hello Washington Confusion,” working paper, Harvard University, January, pages 1–16 and skim the rest.

John Williamson, (2003) “The Washington Consensus and Beyond,” Working Paper, Institute for International Economics, Washington.

2–3. *Exchange Rates* (January 20 and 27)

Larry Sawers, (2009), Chapter Nine, “A Primer on Exchange Rates,” Chapter Ten, “Inflation and the Foreign Exchange Market,” Chapter Eleven, “Structuralists and Exchange Rate Policy,” and Chapter Twelve, “Liberals and Exchange Rate Policy,” *Economic Development Policy*.

John Williamson, (2000) “Designing a Middle Way between Fixed and Flexible Exchange Rates,” Institute for International Economics, A paper presented to a conference on “Monetary and Exchange Rate Policies: Options for Egypt,” Egyptian Center for Economic Studies Cairo, Egypt November 19–20. <http://www.iie.com/publications/papers/williamson1100.htm>

Calvo, Guillermo A. and Frederick S. Mishkin, (2003) “The Mirage of Exchange Rate Regimes for Emerging Market Economies,” *Journal of Economic Perspectives* 17 No. 4, 99–118. Pay special attention to the first three pages; skim the rest.

4. **Fixing Inflation: Fiscal and Monetary Policy** (February 3)

Larry Sawers, (2009) Chapter Thirteen, “A Primer on Inflation,” Chapter Fourteen, “Inflation and Structuralism,” and Chapter Fifteen, “Liberals and Inflation,” *Economic Development Policy*.

Kenneth Rogoff, (2003) “Globalization and Global Disinflation,” International Monetary Fund, <http://www.imf.org/external/np/speeches/2003/082903.htm#top>.

5. **Trade** (February 10)

Larry Sawers, (2009) Chapter Sixteen, “International Trade and Liberalism,” *Economic Development Policy*.

Henry Bruton, (1998) “A Reconsideration of Import Substitution,” *Journal of Economic Literature* 36 2, 903–926.

Dani Rodrik, (2001) “Trading in Illusions,” *Foreign Policy*, March–April, 55–62.

Additional Readings:

Anne Krueger, (1997) “Trade Policy and Economic Development: How We Learn,” *American Economic Review*, 87, 1–22.

Sebastian Edwards, (1997) “Trade Liberalization Reforms and the World Bank,” *American Economic Review* 87 43–48.

Robert E. Baldwin (2000) “Trade and Growth: Still Disagreement about the Relationships,” Economics Department Working Papers No. 264, OECD, October.

Robert Blecker, (2000) “Diminishing Returns to Export Led Growth,” Council on Foreign Relations or Arslan Razmi and Robert Blecker, (2008) “Developing Country Exports of Manufactures: Moving Up the Ladder to Escape the Fallacy of Composition,” *Journal of Development Studies*, 44, 21–48 (skim only for conclusions—skip the econometrics).

Francisco Rodríguez and Dani Rodrik, (2000) “Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-National Evidence,” Harvard University and University of Maryland working paper. This is the paper discussed in Baldwin. Skim lightly to get a sense of how they make their case.

Larry Sawers (2005) “Nontraditional or New Traditional Exports: Ecuador’s Flower Boom,” *Latin American Research Review* 40 No. 3, 40–67. (This is a case study of how changes in the policy regime affected a nontraditional export industry.)

Larry Sawers (2006) “Sustainable Floriculture in Ecuador,” *International Journal of Economic, Social, and Environmental Sustainability*, 1 No. 2, 3–9, 2006. (See especially the section on Cultural and Social Sustainability.)

6. **Financial and Exchange Rate Crises** (February 17)

Maurice Obstfeld, (1998) “Global Capital Market: Benefactor or Menace?” *Journal of Economic Perspectives* 12, 9–30.

Sebastian Edwards, (1999) “How Effective Are Capital Controls?” *Journal of Economic Perspectives* **13**, 65–84.

Additional Readings:

Kristin Forbes, (2004) “Capital Controls: Mud in the Wheels of Market Discipline,” NBER working paper 10284.

Graciela L. Kaminsky, Carmen M. Reinhart, and Carlos Végh, (2003) “The Unholy Trinity of Financial Contagion,” *Journal of Economic Perspectives* **17**, No. 4, 51–74.

7. Economic Development in the Third Millennium (February 24)

Larry Sawers, (2010) Chapter Twenty, “The End of Liberalism,” *Economic Development Policy*.

Paul Krugman, (2009) “How Did Economists Get It So Wrong?” *New York Times*, September 6.

Dani Rodrik (2010) Diagnostics before Prescription,” *Journal of Economic Perspectives* **24**, No. 3, 33–44.

Qian, Yingyi, (1999) “The Institutional Foundations of China’s Market Transition,” Stanford University. Prepared for the World Bank’s Annual Conference on Development Economics, Washington, D.C., April 28–30.

8. Poverty (March 3)

Todaro and Smith, Chapter 5

Gary Fields, (2001) *Distribution and Development: A New Look at the Developing World*, Russell Sage Foundation and MIT Press, Chapters 3 and 5.

Xavier, Sala i Martin, (2002) “The Disturbing ‘Rise’ in Global Income Inequality,” National Bureau of Economic Research, working paper 8904, April 2002.

David Dollar and Aart Kraay, (2002) “Growth is Good for the Poor,” working paper, the World Bank.

Shaohua Chen and Martin Ravallion, (2004) “How Have the World’s Poorest Fared Since the Early 1980s?” World Bank Policy Research Working Paper 3341, June.

Tina Rosenberg, “To Beat Back Poverty, Pay the Poor,” *New York Times*, January 3, 2011.

9. Population (March 17)

Todaro and Smith, Chapter 6

10. Agriculture (March 24)

Todaro and Smith, Chapter 9

Larry Sawers, (2009) Chapter Nineteen, “Agriculture,” *Economic Development Policy*.

Paul Collier and Jan Willem Gunning, (1999) “Why Has Africa Grown Slowly?” *Journal of Economic Perspectives* **13**, 3–22.

Additional Reading

Andrew Kamarck, 2001 “The Tropics and Economics,” Chapter 11, *Economics for the Twenty-first Century*, Aldershot, England: Ashgate, 174–187.

Julio Henao and Carlos Baanante, (2006) “African Agriculture and Soil Nutrient Mining in Africa,” International

Center for Soil Fertility and Agricultural Development working paper.

Vernon W. Ruttan (2002) “Productivity Growth in World Agriculture: Sources and Constraints,” *Journal of Economic Perspectives* **16** No. 4, 161–184.

11–12. ***Health and Development (March 31 and April 7)***

Todaro and Smith, Chapter 8 pages 397–416.

Sharon Schwartz and Kenneth Carpenter, (1999) “The Right Answer to the Wrong Question: Consequences of Type III Error for Public Health Research,” *American Journal of Public Health*, **89**: 1175–1179.

Geoffrey Rose, (1985) “Sick Individuals and Sick Populations,” *International Journal of Epidemiology* **14**: 32–38.

Stillwaggon, *Stunted Lives, Stagnant Economies* Chapters 1–13.

13–14. ***The Special Case of HIV in Africa (April 14 and 21)***

Larry Sawers and Eileen Stillwaggon (2010) “Understanding the Southern African ‘Anomaly’: Poverty, Endemic Disease, and HIV,” *Development and Change* **41** No. 2, pages 195–224.

Larry Sawers and Eileen Stillwaggon (2010), “Concurrent sexual partnerships do not explain the HIV epidemics in Africa: a systematic review of the evidence,” *Journal of the International AIDS Society*, **13** No. 34, pages 2–23, skim.

Additional Reading

Eileen Stillwaggon and Larry Sawers (2011) “Power, race, and the neglect of science: The HIV epidemics in sub-Saharan Africa,” Brian King and Kelly Crews,

Eileen Stillwaggon, (2003) “Racial Metaphors: Interpreting Sex and AIDS in Africa,” *Development and Change*, **34** No. 5, 808–832.

Requirements

Class attendance is crucial for you to do well in the course and is a required part of the course. You are expected to arrive before 5:30 since the class will begin promptly at that time. You may be asked to sign an attendance at each class. Family emergencies and illness are acceptable reasons for being excused from attending class. Work assignments are not acceptable reasons. I understand that life is complicated and we all have competing claims on our time. If those claims take you away from the class, however, what you get from the course is compromised and your grade will reflect that.

You can earn extra points by sending me emails suggesting improvements or corrections to my book *Economic Development Policy*. If I accept your suggested change and you are the first to make the suggestion, I will add between a tenth of a point and a full point to your final average in determining your grade in the course. Tiny little typos such as an extra space or repeated word get the least extra credit. Suggestions about how to present an idea or a correction for an error I have made get you more extra credit. The more important the suggestion or the more egregious my error, the more credit I will give you.

Assignments

1) 25 percent: Short quizzes will be given through the course, but mostly in the first half. They may be at the beginning of class (which is one reason why arriving promptly is important), at the end of class, or as a take-home assignment. You will always be given at least five days notice (but usually a week) and will be told what the quizzes will cover. Expect between five and ten quizzes over the semester.

2) 25 percent: Final exam on December 10. The in-class exam will cover the entire course and will be mostly or

entirely short answers.

- 3) 25 percent: A country research project due Monday morning March 14th.
- 4) 25 percent: A country research project due Friday morning April 29th.

GUIDELINES FOR RESEARCH PROJECTS

The first research project will be a case study of a developing or transition country of your choosing, but you must consult with me before you finalize your choice. Some of you may be really interested in countries for which little published material exists (Equatorial Guinea or Suriname, for example); be realistic in choosing your country, making sure that you can find sufficient materials to permit a satisfactory completion of the assignment. You will evaluate and explain the experience of your country during a financial market/foreign exchange crisis such as the Latin American debt crisis of the 1980s, the Asian Financial crisis of the late 1990s, or the mortgage meltdown crisis of 2007–2011. The objective of your paper will be to understand the specific nature of your country's development path and how that made it vulnerable and/or resistant to global economic shocks. You should discuss the policies put in place in response to the crisis and evaluate their success or failure. The purpose of the paper is for you to put to use what you have learned about the macroeconomics of development to understand how the crisis played out in your country.

The second research project will be a case study of a disease found mostly in developing or transition countries. You will be given a list of diseases from which to choose. Please tell me your choice. I may limit the number of people writing about specific diseases, so you may want to pick your topic sooner than later. Before you settle on a disease on which to write your paper, make sure you can locate a sufficient number of sources on which to base your paper. Your project should discuss the following issues:

- geographic and ecological context of the disease or condition with focus on the developing world
- you may wish to discuss the relevant political, economic, or historical context (war, apartheid, SAPs, etc.) if appropriate to your disease
- the biology of the condition (including etiology, transmission, and the immune system's role)
- human cost, economic cost, social burden of the disease or condition in concrete terms
- technologies available to prevent or treat the problem
- costs of prevention and treatment
- existing prevention and treatment programs
- obstacles to solutions
- benefits/externalities in prevention/treatment

All of your analysis should be suffused with the distinction between individual and population level effects. You may need to reread the assigned articles by Schwartz and Carpenter and by Rose to do this effectively.

Both research projects should be no more than ten pages (approximately 4000 words, not including works cited or statistical appendices). Any data you use in your paper that are in current rather than in real units are nearly useless. If you can only find data in current figures, then find a price index and deflate them for your paper. Even better, express magnitudes as a percent of GDP that is also measured in current units.

It is understood that you cannot talk about everything in your papers and that what you are able to say is importantly shaped by the sources you can find and your own interests. You must cover quite a bit of material in your paper, so you should aim for a condensed style of presentation. You are urged to not spend valuable time and space in flowery introductions. It may be useful to organize the material using bullets or a numbered outline (but do not write in sentence fragments unless your presentation is crystal clear). Do not spend time on elaborate transitions, but get straight to the analysis and to the facts. Carefully edit your papers for clarity, concision, and precision.

Expect to use a variety of resources for your paper. Reliance on one or two books or articles is not sufficient to earn a good grade. Do not expect a good grade if most of your sources are from the internet. Encyclopedias, especially on-line encyclopedias are inappropriate sources for a paper of this sort, though you may want to begin with

an encyclopedia article to orient yourself in the subject matter.

You will lose points on your paper

- if the paper is not turned in on the assigned date without my permission
- if you submit a paper in a font without serifs, that is, use Times New Roman or Garamond rather than Arial or some other sans-serif font
- if the paper is not spell checked
- if your paper is not double-spaced
- if your paper is not paginated
- if you do not include a list of works cited and a list of other references used in writing your paper
- if works are not properly cited. Citations should be in the text, not in footnotes. The preferred citation format is as follows: A . . . the sequencing of liberal reforms (Smith 1776, 324B326).” Your bibliographic entry would then appear as ASmith, Adam. (1976) *An Inquiry into the Wealth of Nations*. New York: Modern Library Edition.”
- if the paper uses endnotes. Footnotes are also discouraged: if it is important, put it in the text; if it is a citation, put it in the body of the text
- if you do not use a liberal citation policy in which the reader is told the source of every major idea and fact
- if you send me the text of your paper as a Word file and your tables of data as an Excel File; instead, import your tables into your Word document.
- if you do not use the following format to name your project when you email it to me: your last name 661 fall 2010 name of your country/disease. I know this sounds crazy, but I will return your paper to you if you do not use this format. I will explain in class why I care.

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Submit your term papers by attaching a copy to an email. When I save your paper to my hard drive, I will reply to your email with one of my own saying that I have received your paper. If you do not hear in a day or two that I got your paper, check with me. I will return your paper by email with my comments. Please submit your paper in Microsoft Word. You must have up-to-date virus protection on your computer before you submit your papers

Other issues

I will be using Blackboard to post messages, copies of assigned readings, study guides, practice questions, and dormwork assignments. I will not keep a separate email roster with your actual email addresses, but I will email you through Blackboard. Blackboard sends your messages to your official AU email address. You will not get my messages unless you either check your AU email account regularly or have your mail forwarded. Go to my.american.edu/technology and have your email forwarded from your official AU email address to whatever hotmail, gmail, or yahoo address you currently use.