The George Washington University  
Elliott School

Econ 295.10 / CRN 66110

Prof. Norman Hicks

Economics for Development Policy

Wednesday, 5:10 – 7:00

Room: Monroe 451

Course Syllabus

Objectives. This course provides an overview of the theory and practice of economic development, with a focus on issues related to applied economics as it relates to policy making. The course covers causes of underdevelopment, theories of development, the role of government, trade, aid and debt issues. Students should have some basic economic training, such as a one-year Principles of Economics course.


Grading. Midterm exam 1/3rd; exercises 1/3rd, final exam 1/3rd. The student honor code will be rigorously enforced with a zero-tolerance policy toward cheating or plagiarism. Class attendance and participation is expected and will be a factor in grading on the margin.

A number of hands-on exercises will be passed out in class. They are due to be handed in by the next class, and will be the basis of class discussion. They will also be posted on Blackboard.

Note. Any student who feels s/he may need an accommodation based on the impact of a disability should contact Disability Support Services, Marvin Center 242, 994-8250, to have the disability documented and reasonable accommodations coordinated.

Schedule of Classes.

Sept 5. Why Economic Development?
   a. The Nature of the Problem
      i. Developing countries – characteristics
      ii. Measuring development – income versus other measures
         1. what is the objective -- Income growth? Welfare? Happiness?
      iii. Exchange rate conversions and PPP
   b. Development in the Post WWII Era
      i. The historical context on thinking on economic development; from imperialism/colonialism to bilateral and multilateral foreign aid
      ii. A brief history of thinking on economic development: vicious circles, low level equilibrium traps, big-push, and take-off models.
      iii. Balanced vs. unbalanced growth
      iv. Dualism
      v. Dependency Theories
      vi. Singer-Prebisch and the Terms of Trade

Readings: Perkins Chapters 1,2,3
Rosenstein-Rodan, P.N. “Problems of Industrialization in Eastern and South-Eastern Europe” Economic Journal (June-September, 1943)

EXERCISE: Analysis of Data on Economic Development

Sept 12. Growth and Development: Theories and Facts
  1. Investment-Growth Theories and Their Critics
     a. Keynes’ influence
     b. Harrod-Domar Growth Model
     c. ICORs
     d. The two-gap model, RMSM
  2. Labor and Capital
  3. The Lewis model
     a. Development with Unlimited Supplies of Labor?
  4. Solow model – diminishing returns to labor and capital
     a. Labor and capital saving technical change
  5. convergence or divergence?
  6. The Easterly critique

Readings: Perkins, Chp 4


EXERCISE: Calculating ICORS and Convergence for your countries

Sept 19 – Sources of Growth
  1. Growth Accounting – TFP
  2. Empirical research on the correlates of growth and productivity
     vii. Barro
     viii. Hall/ Jones
     ix. Pritchett
  3. The basics of econometrics in 30 minutes


EXERCISE: Running a Regression
Sept 26 -- Agriculture
1. Productivity, Prices and Incomes—and why is there hunger in the world
2. Issues in agriculture—subsistence vs. large scale farming; rural development vs. agricultural progress
3. the reform agenda --
   a. getting the prices right
   b. irrigation
   c. land reform
   d. credit
   e. exports of primary products
Readings:
Perkins, Chapter 16, 17

Abler, David “Agriculture in Developing Countries” Penn State University, available at: http://450.aers.psu.edu/agriculture.cfm
C. Peter Timmer “Agriculture and Pro-Poor Growth” USAID, Washington DC, Pro-Poor Growth Research Studies (July 2003).

Oct 3 Poverty and Inequality

c. Measuring poverty --The poverty line approach
d. Absolute and relative poverty measures
e. Social indicators – the HDI of the UN
f. Income distribution – measurement issues
   i. The Kuznets Hypothesis
g. World trends in income distribution and poverty – are we making progress?
h. Relationships between growth and income distribution – cause or effect?
i. Growth vs. Distribution: policies for different countries.
j. Readings:
   i. Perkins, Chapter 6
   ii. Lopez, H. “Pro-Poor, Pro-Growth: Is There a Trade-Off?” World Bank, unpublished

EXERCISE: Using indicators to construct a composite index of development

Oct 10 Guiding Development – The Role of the Public Sector
1. How much public ownership?
v. externalities—positive and negative
1. the prisoner’s dilemma and Nash equilibrium
   vi. the role of the public sector
      1. public goods and quasi-public goods
      2. natural monopolies and decreasing cost industries
   vii. privatization of infrastructure and govt. services – good or bad?
   viii. Application to environmental issues: regulation, prohibition and/or marketable permits for pollution

Readings: Perkins Chapters 5, 20.
Antonio Estache, Andres Gomez-Lobo & Danny Leipziger; “Utilities Privatization and the Poor: Lessons and Evidence from Latin America” World Development (July, 2001)

Oct 17: The Role of Government --Fiscal Policy
a. The government budget- capital and recurrent expenditures
   i. Impact of adjustments and budget cuts
b. Program budgeting, MTEFs
c. Results oriented budget formulation --Monitoring and evaluation
d. Targeted programs vs. general subsidies
e. Tax policies
   i. Impact of taxation – deadweight losses
   ii. Who pays – progressive and regressive taxes
   iii. Who benefits from Govt. Expenditures?
f. Project analysis – NPV and IRR concepts
g. Calculating present value
   i. Internal rates of return, cost-benefit analysis
h. Defining the Govt. Investment Program
   ix. Links to the current budget
   x. Relations with donors
k. Governance and corruption—the issues
   i. Efforts to limit corruption
Perkins: Chp. 12
Hicks, N.L. "Expenditure Reductions in Developing Countries Revisited", Journal of International Development 3 (January 1991).

EXERCISE: Net present value and internal rates of return – project analysis

Oct 24. MID-TERM EXAM

Oct 31: Population, Labor Markets
a. Population
   i. Population growth—good or bad?
   ii. Malthus and the Malthusian threat
   iii. Family planning and population control – the scope for public policy
b. Employment
   i. Employment, poverty and government regulation of the labor market
   ii. Formal vs. informal labor markets
iii. Impact of government policies – minimum wages, etc.

c. Safety nets—issues of targeting and incentives
   i. Unemployment insurance
   ii. Employment generation programs
   iii. Feeding programs
   iv. Conditional grants

Readings:
Perkins, Chapter 7, 8

Nov 7. Industry and Development
   a. Industry as a leading sector
   b. Investment choices
   c. Small scale industry
   d. Import substitution (ISI) – tariff and QR protection
   e. Effective Rates of Protection (ERP)
   f. Outward—looking strategies

Readings: Perkins Chapter 18

Nov. 14 Trade and Development
   a. Comparative advantage and the gains from trade
      a. Ricardo –the classical model of trade
      b. Hecksher-Ohlin model
   c. Primary exports as an engine of growth
   d. Real effective exchange rates – tradeables and non-tradeables
   e. Customs unions and multilateral trade arrangements – the WTO
   f. The composition of the balance of payments—goods, services, transfers and capital flows

Readings: Perkins Chapters 17, 19

\ EXERCISE: Working through the balance of payments & effective rate of protection

Nov 21. Savings, Inflation and Financial Policy
   a. Savings and Growth
      i. Rationale for savings
      ii. Empirical evidence
   b. Money and the financial system
   c. Role of the central bank
   d. Inflation and growth
   e. Regulation of banks and credit markets
   f. Informal markets
      a. Is micro-finance the answer to world poverty?

Readings: Perkins, chapters 10, 13

Nov 21 (cont.) Macro management in an Open Economy
a. Internal and external balance
   a. Stabilization vs. growth
   b. Structural Adjustment
   c. Dutch disease
   d. The role of the IMF
   e. The Washington Consensus
   Readings:
   Perkins, Chp. 21

Nov 28 Capital Flows, Foreign Aid and Debt
a. Sources of assistance – private and official flows
   i. Multinational investment
   ii. NGOs
b. Foreign aid
   i. Forms of aid – projects, programs, technical assistance
   ii. Aid effectiveness – does aid raise growth?
   iii. The case for structural adjustment or policy based lending
c. Debt
   i. The debt problem and “debt overhang”
   ii. Debt relief efforts – links to policies, poverty reduction
d. The World Bank and the IMF
   Readings:
   Perkins, Chapter 14,15.

Dec 5 Case Study: China: The Three Gorges Dam Project
Class will divide into groups representing either: government of China, international NGOs, World Bank, Chinese NGOs/people of China. Each side will present its case either for or against the project. You will have to do your own research. Some resources are given below:
1. basic info:
a. official web site, Govt. of China: http://www.ctgpc.com/
   ** on course reserve, Gelman Library

2. critique of World Bank:  

3. critics of project:

DEC 19 FINAL EXAM

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office hours: I available to talk anytime, either by phone or face-to-face. Call me to arrange.

Additional Readings on development you might enjoy:

Peter Hessler, *River Town: Two Years on the Yangtze*, is worth reading in its entirety.