

Course Description: We live in extraordinary times: for decades mainstream neoclassical growth models have called for convergence: for poorer nations grow faster and catch up with richer nations. Finally, in part due to the Global Financial Crisis (GFC and QE) poorer countries have grown faster than the high income OECD countries—see Figure C-2 Absolute Convergence). In part, this has happened for the wrong reasons: unemployment still at depression levels in Southern Europe. Yet growth in Africa and South Asia, the poorest regions in the world, continues. Thus inequalities among nations grew for centuries (the great divergences) have begun to diminish. Will it last? This is question taken up in this course. Growth in China and India has already slowed. High commodity prices and low interest rates which boosted growth in Latin America and Africa have moderated. How long with this reversal of fortunes the fueled almost 15 years of convergence last? With inequality increasing in many regions (but not in Latin America) are the poor really benefitting from this growth. Economists of course are split into two camps: some see the ascendance of China and India continuing, eclipsing the West and shifting the global engine growth from the West to East (already China's total trade exceeds that of the U.S. and the EU—though the EU is expanding). Others see China's "authoritarian" growth model as spent (see for example, Acemoglu and Robinson or Easterly speaking at the Economist magazine). We anticipate a little of both. Starting with Sach's et. al 2004 *Ending Africa's Poverty trap* and culminating in Acemogly and Robinson's massive 2012 tome *Why Nation's Fail* development economists have become adept at explaining stagnation. Yet if developing countries are stuck with "extractive institutions" preserved by the "iron law of oligarchy" stuck in "poverty traps" why is growth faster than before, even in countries known for poor governance (e.g. Ethiopia, Mozambique, Cambodia, Argentina). Fortunately, there are "policy levers" and policies that seem to be working, not just to accelerate growth but to achieve many of the equity related MDGs. Policies to sustain growth and poverty reduction in developing countries is the subject of the 2nd half of this course. For readings and additional information see the course calendar.

Recommended topical recent growth & development books (we read selected chapters):

Capital in the 21st century. Thomas Piketty (2014) Harvard University Press ISBN 1491534656 (\$23 or free for 30 days w/Kindle Unlimited as is this excerpt from the introduction (\$11 to rent from chegg.com) just look at [pictures](#) & watch [ASSA 2015 session](#) on Piketty's book, with Piketty (& Mankiw, Weil & Auerbach)
 World Bank, Global Monitoring Report 2014/2015: Ending Poverty & Sharing Prosperity 1-4648-0336-9 PDF
 Acemoglu, Daron and J.A. Robinson (2012) *Why nations fail: the origins of power, prosperity and poverty*, Crown Business (\$13 kindle, \$12 paper, with maps and pictures) see also Government, Geography, and Growth
 The True Drivers of Economic Development Foreign Affairs Review by Jeffery Sachs
 Subramanian, Arvind, 2011, Eclipse: living in the shadow of China, Peterson Institute for International Economics, Washington D.C. read the catch up with PPP chapter, very illuminating, see excerpts online.

PhD students:

Agénor, Pierre-Richard (2004) *Economics of Adjustment and Growth*, 2nd ed (HUP) 0674015789
 Barro, R. & J. Sala-i-Martin (2004) *Economic Growth* 2nd ed CD reader (MIT Press) 0262025531
 Acemoglu, Daron (2009) Introduction to Modern Economic Growth, Princeton University Press
 (Chapter 1, chapter 2, chapter 5 and an epilogue available on this page or [pdf draft](#)).

Masters students:

Jones, Charles I. (2001) *Introduction to Economic Growth* 2nd ed (W.W. Norton 0393977455)
 Aghion, P and P. Howitt (2009) *Economics of Growth* (MIT Press, Boston) 0262012634

Other books and references (some required reading)

Justin Yifu Lin, 2012. "The Quest for Prosperity: How Developing Economies Can Take Off," Princeton University Press.
 Deaton, Angus (2013) The Great Escape: Health, Wealth, and the Origins of Inequality, Princeton Univ Press,
 Aghion, P and P. Howitt (1998) *Endogenous Growth* (MIT Press, Boston) 0262011662
 Barro, Robert J. (1998) *Determinants of Economic Growth* (MIT Press, Boston).
 Lucas, R.E. (2002) *Lectures on Economics Growth* (Harvard Univ. Press)
 Parente, S. and E. Prescott (2002) *Barriers to Riches* (paperback) MIT Press
 Rodrik, Dani (2003) *In Search of Prosperity* (Princeton University Press) [0691092699](#)
 Romer, David (2012) Advanced Macroeconomics (chapters 1-3)
 Aghion, P. & J. Williamson (1998) *Growth, Inequality & Globalization*, Cambridge

Requirements: The essay based final and midterm account for 20% and 40% of the course grade. A number of problem sets (15%) and a country case study (25%) contribute the remaining 40% of the grade. Everyone should do a case study which you present to the class, and also inform a final exam question which is written in class. This is similar to a paper with data tables and references, but less ambitious. After the midterm, we focus on case studies applying the growth models to actual data (the midterm is take home, has some basic case study components... including convergence data). Presenting a brief summary of your case study to the class for discussion and comments helps you prepare for the final exam understand how the growth process works in your country or region. It can be a mess, but growth works to raise living standards and longevity, how we can be sure, especially in Africa is a key topic? How about electricity use at night. Our measures of economic progress and the distribution of income are not perfect, but they are vastly better when first UN development goals were met in the 1990s. See the course calendar for readings.

Topics-Lectures: Part I Development and Growth: Theory and Evidence Poverty Traps— Empirical Evidence on convergence Three generations of growth models: Solow-Swan, AK-HD

1. Introduction: Growth Miracles and Poverty Traps

Jones Chapter 1 and 2, See PS 1A, and [Sachs et. al BPEA Ending Africa's Poverty Trap pp. 121-31.](#)
and Chapter 1 of B&D, 2011 on poverty traps, Lucas, R.E. (2000) Macro for the 21st Century.
JEP,14:1, Winter 2000 or Chapt 4 Lectures in...

Case Study 1.1 Institutions vs. Geography: how rich countries became poor Sachs,

Acemoglu, Johnson and Robinson-- AJR (2012) Understanding Prosperity and Poverty:

Geography, Institutions and the Reversal of Fortune NBER long version... Acemoglu, D. (2003)

Rodrik, Dani (2003) "The Primacy of Institutions" *IMF Finance & Development* 40,2, IMF, June 2003

Sachs, Jeffery (2003) *Institutions Matter, but...* (same issue of F&D, see Edison (2003)

Case Study 1.2 Does aid and integration work?

Case Study 1.3: Why is Africa growing so rapidly, is it real, will it last? See the IMF SSA Outlook

2. Three Growth Models: convergence or divergence? (see the three growth models handout)

*Barro(1997) Chapter 1 *Jones 2nd ed, Chapters 1-3

Lucas, R.E. Macro for the 21st Century.. JEP, 14:1, Winter 2000.

3. Inequality and Growth: Inequality and Growth IMF Anchoring Growth Midterm Case Study Figures, Health, Population and Growth. Ethiopia TemplateLecture Notes, **Piketty-Mania: Presenting at EPI with the Robert Solow as in Solow 1956. Solow reviews Piketty, so does PK in the New York Review of Books. And on his blog an (admiring) skeptic's view (Winship) in Forbes. The world top incomes database. Growth and Capital's share....**

4. Five demand & supply side poverty traps and how to escape them:

Barro and Sala pp. 74-77 Sachs et. al BPEA Ending Africa's Poverty Trap pp. 121-47.

Krugman (1996) "The Fall and Rise of Development Economics" Journal Acronyms

Murphy, K. Schleifer & Vishny (1989) "Industrialization & the Big Push" *JPE*, 97:5, 1003-27

Robelo, S. (1992) "Growth in open economies" *Carnegie-Rochester Public Policy Series*, 36,5-46.

5. Empirical Evidence on exogenous vs. endogenous growth and convergence.

*A&H—pp. 29-35, *B&SM Chaps 11,12 *Agénor Chapter 13) Bosworth and Collins (2003) "The Empirics of Growth: An Update" BPEA, No. 2. Levine R. & D. Renelt (1992)"Cross-country Growth Regressions," *AER*, Sept,84:2,942-63 *Barro, R. J. (1998) *Determinates of Economic Growth* Chapt 1. and TEAM pp. 60-69. *Sala-i-Martin, J. (1997) "I just ran 4 million regressions," Columbia University *McGratten, E. (1998) "A Defense of AK Growth Models,

Part II. Policies to promote economic growth:

6. Openness and Growth II: Capital Mobility and Growth (Agénor Chapter 16)

7. Financial Development and Growth:

8. Poverty, Redistribution and Political Economy (see *Barro (1997) Chapter 2):

9. Macroeconomic Stability and Growth (*Barro, *Determinants of Growth*, Chapter 3)

10. Natural Resources, Foreign Aid and Economic Growth

11. Growth Diagnostics and Industrial Policy/Data and Case Study Resources

Reference & background reading (click to full list below):

Ros, Jaime (2000) *Development Theory & Economic Growth* (U of Michigan Press)

World Bank, (2000) *The Quality of Growth (QOG)*

World Bank (1993) *The East Asian Miracle* (Oxford U Press-- or "TEAM")

Gylfason, Thorvaldur, 1997, *Principles of Economic Growth* (Oxford U Press, NY)