

Topics in Development Economics

Department: Fudan International Summer Session 2024

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| Course Code | ECON170007 | | |
| Course Title | Topics in Development Economics | | |
| Credit | 2 | Credit Hours | 36 credit hours + 3 tutorial hours (one credit hour is 45 minutes) |
| Course Nature | <input type="checkbox"/> Specific General Education Courses <input type="checkbox"/> Core Courses <input checked="" type="checkbox"/> General Education Elective Courses <input type="checkbox"/> Basic Courses in General Discipline <input type="checkbox"/> Professional Compulsory Courses <input type="checkbox"/> Professional Elective Courses <input type="checkbox"/> Others | | |
| Course Objectives | The course aims to build up students' critical-thinking skill through reading the most recent empirical development economics literature and participating in class discussion. | | |
| Course Description | <p>A significant gap exists in income between rich and poor countries. For example, in 2019, Singapore's income is about 65,000 USD, which is about 100 times higher than the one of Democratic Republic of Congo. What explains the income differences across countries? How can a country eliminate poverty?</p> <p>To paraphrase the famous quote in Anna Karenina, rich countries may all look alike, but every poor country may be poor for its own reasons. The course does not attempt to exhaust all plausible and special reasons for underdevelopment. Instead, we will try to examine the common and general causes that reduce income. We start from Hall and Jones (1999) by introducing students the significant differences in aggregate total factor productivity (TFP) that exist across countries and highlight the importance of TFP variation in explaining income variation. The paper also put "social infrastructure" under the spotlight to explain the differences in TFP and factor accumulation.</p> <p>Social infrastructure represents a set of institutions that govern economic activities through altering these activities' private return as well as the gap between private return and social return. We follow Douglass North and asks why, under certain institutions, the private return of economic activities is lower than the social return, and we think about the implications of these institutions on TFP, factor accumulation, and aggregate income. In particular, we will study the recent development economics literature with wide-ranging topics on free market, misallocation, state and patronage, state capacity, taxation, corruption, property right, industrial policy, and micro finance. To certain extent, these topics are all related to the role of the state in determining economic development. In the end, we think about the implication of economic development on economic inequality. By the end of the course, students will command a systematic way to think about economic development and be able to find the institutional forces that drive economic growth.</p> | | |

Course Requirements:

Prerequisites: There are no formal course prerequisites. However, students can get more from the class if they are proficient in calculus, microeconomics, and econometrics.

Teaching Methods:

Regular lectures
Interactive discussions
Homework exercise

Instructor's Academic Background:

The instructor receives his bachelor in economics and mathematics from Wuhan University, master in economics in Hong Kong University of Science and Technology, and doctoral degree in economics from Yale University.

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Course Schedule:

1. Development facts and social infrastructure
 - Comparative growth experiences of countries
 - Read Hall and Jones (1999): think about what social infrastructure is and how it impacts economic development
2. Development accounting
 - Productivity seems to be a key to explain income difference across countries.
 - Read Caselli (2005): is it possible that productivity is poorly measured?
3. Agriculture productivity gap
 - There exist significant agriculture productivity differences between poor and rich countries. Such gap is even larger than the one in the manufacturing sector.
 - Read Gollin, Lagakos, Waugh (2014) and Adamopoulos and Restuccia (2014): why is it the case? What are the challenges and opportunities?
4. Resource misallocation across and within countries
 - Decades ago, Robert Lucas from the University of Chicago raised a puzzle: why doesn't capital flow from rich to poor countries?
 - Read Caselli and Feyrer (2007): We re-examine this question. Shall we re-allocate capital across countries?
5. Resource Misallocation in India, China, and Eastern European countries
 - Resource misallocation can be a key explanation for low productivity. But why cannot market resolve the issue?
 - Read Hsieh and Klenow (2009): What explains the changes in capital misallocation in China? Do you observe any resource misallocation?

6. Property right protection, contract enforcement, and economic governance
 - An important role of the state is to clearly define property right systems and establish a functioning judicial system. Through what ways can property right protection and contract enforcement influence economic development?
 - Read Dixit (2009): what are the roles of the different institutions.

7. State capacity, taxation, and corruption
 - State capacity seems essential, or maybe first-order, to economic development. What's the concern of having a weak state? What's the concern having a strong state?
 - Read Besley and Persson (2014) and Shleifer and Vishney (1993): let's discuss the role of central government.

8. Finance
 - Why is finance closely linked to economic development? What's the role of property right and collateral? Why do small & medium-sized firms often fail to obtain loans from banks?
 - Read Banerjee, Karlan, and Zinman (2015): Are microfinance programs effective?

9. Product space and innovation
 - Does it matter if a country start with producing certain products?
 - Read Hausmann and Rodrik (2003): why there can be failures of the laissez-faire outcome?
 - Read Braguinsky (2021): what can we learn from Japan's experience?

10. Group presentations

11. Inequality
 - As Deng Xiaoping famously put it, "let some get rich first," China's wealth and income inequalities rose rapidly in the past decades. How do we think about the relationship between economic development and inequality?
 - Read Piketty, Yang, Zucman (2019): What should China do to address her rising inequality?

12. Final exam

The design of class discussion or exercise, practice, experience and so on:

I will raise an open question related to economic development and institutional designs and ask students to discuss in groups (randomly assigned). It can be much easier to answer the question based on gut feeling or intuition; it is more difficult to think critically following economic reasoning. This is what the students will practice during my class discussions.

Grading & Evaluation:

Each student is evaluated based on three parts: class discussion, a group presentation, and a final exam.

| Evaluation | % of Final Grade |
|-----------------------|------------------|
| 1. Class Discussion | 10% |
| 2. Homework | 20% |
| 2. Group Presentation | 20% |
| 4. Final Exam | 50% |

Class Discussion (10%):

In this course, any opinion or idea will be appreciated. Students are expected to actively participate in class discussion and share your perspective.

Homework (20%):

HW1: a replication report. (10%)

Follow the steps in Caselli and Feyrer (2007) and compute the marginal product of capital for countries around the world. We replicate Figure V of the paper. Students should submit **a report** that contains the main findings and conclusion (**less than 2 pages**).

HW2: a 1-page report. (10%)

Do you think there is a connection between state capacity and low agricultural productivity in low-income countries (e.g., Sub-Saharan countries)? If you think there is no connection, please elaborate your points. If you think there is a connection, please give one concrete case where the low state capacity affects agricultural productivity in a country.

Group Presentation (20%): (3-4 students per group, spontaneous formation)

Each group searches for an institution, governmental policy, or government project that is related to our course and presents it in class. It could be from any country in any period of time. You should discuss why it imposes or resolves frictions on economic transactions. Each group has 20 minutes to talk.

Final Exam (50%):

A closed-book final exam that contains 20 multiple-choice questions that are based on the reading.

Teaching Materials & References:

Paper list:

1. Robert E. Hall and Charles I. Jones, 1999. "Why do Some Countries Produce So Much More Output Per Worker than Others?" *The Quarterly Journal of Economics*. Volume 114, Issue 1, February 1999, Pages 83–116
2. Caselli, Francesco, 2005. "Accounting for Cross-Country Income Differences," *Handbook of Economic Growth*, in: Philippe Aghion & Steven Durlauf (ed.), *Handbook of Economic Growth*, edition 1, volume 1, chapter 9, pages 679-741
3. Francesco Caselli and James Feyrer, 2007. "The Marginal Product of Capital," *The Quarterly*

Journal of Economics. MIT Press, vol. 122(2), pages 535-568.

4. Chang-Tai Hsieh and Peter J. Klenow, 2009. "Misallocation and Manufacturing TFP in China and India." *The Quarterly Journal of Economics*. Vol. CXXIV, Issue 4, November.
5. Xu, 2011. "The Fundamental Institutions of China's Reforms and Development." *Journal of Economic Literature*. 49:4. 1076-1151.
6. Timothy Besley and Torsten Persson. "Why Do Developing Countries Tax So Little?" *Journal of Economic Perspectives*. Vol. 28. No. 4. Fall 2014.
7. Shleifer, Andrei, and Robert W Vishny. 1993. "Corruption." *Quarterly Journal of Economics*, 108 (3): 599-617 .
8. Banerjee, Abhijit, Dean Karlan, and Jonathan Zinman. "Six Randomized Evaluations of Microcredit: Introduction and Further Steps." *American Economic Journal: Applied Economics*. 7 (1): 1-21.
9. Piketty, Thomas, Li Yang, and Gabriel Zucman. "Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015." *American Economic Review*. 109 (7): 2469-96.

Books:

Institutions, Institutional Change and Economic Performance

Author: Douglass North

Publisher: Cambridge University Press (1990)

Why Nations Fail: The Origins of Power, Prosperity, and Poverty

Authors: Daron Acemoglu and James A. Robinson

Publisher: Currency; Reprint (2013)