ECON 5420: Development Economics

Spring 2016
Hong Kong University of Science & Technology
Course website: http://canvas.ust.hk

Class meetings Mon & Wed 10:30 – 11:50 am LSK 1032

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(Please email ahead of time.)

Course description

It could be argued that development is the most important topic that economists study. Governments all over the world worry about their countries' development, and most individuals are concerned about their economic and social wellbeing. So, for economists and indeed all interested citizens, it is useful to understand how economies grow, what it means for an economy to be developed, and what barriers individuals and countries face in achieving development.

We will work through a set of topics that will all contribute to this understanding. Questions we will be thinking about include the following:

- What is "development", how is it different from economic growth? How should a country's development be evaluated?
- How do agricultural households make decisions? What role does the agricultural sector play in growth?
- How does the structure of an economy change as it grows? What drives rural-to-urban migration?
- How do credit market frictions affect economic activity? Can they lead to poverty traps?
- How does microcredit help to alleviate credit market frictions? What are the drawbacks of traditional microcredit models?

Course Intended Learning outcomes (CILOs)

Students who complete this course successfully will be able to:

1. define different metrics of development, compare their pros and cons, and illustrate how they can be measured
2. explain the theoretical and empirically observed relationship between economic growth and poverty reduction
3. analyse the economic decisions of agricultural households and explain why agricultural growth is critical to economic growth
4. analyse the relationship between the agricultural sector and manufacturing and explain how structural transformation takes place
5. describe credit market imperfections in the developing economy agrarian context and explain why they may impede efficiency
6. evaluate the role of microcredit contract design in credit access for the poor
7. distinguish between correlation and causality, and explain the merits and demerits of different empirical methods
8. critically evaluate empirical research papers and interpret their results

Prerequisites

You must have taken ECON 5130 (Microeconomic Analysis) and ECON 5140 (Macroeconomic Analysis) successfully to enrol in this course.

I will assume that you know core concepts in calculus and microeconomics. Please review these if you feel uncertain.

Learning environment

I will lecture and lead class discussions, but I welcome, and do my best to encourage class participation. At any time, please feel free to interrupt me to ask questions or make comments. I will also ask questions and expect you to answer. The questions are not meant to test you. Please do not worry about whether your answer is "correct" or "incorrect". Often what is incorrect according to a particular viewpoint is correct according to another viewpoint. I am interested in finding out what you think and why you think it.

Learning resources

- When I lecture, I will make notes on the board, which you are free to copy. I will hold you responsible for all material discussed in class, and also for the starred readings.

- We will use the course website for announcements and to post homework scores and exam grades. Please check it regularly. This syllabus will also be uploaded there.
- The textbook for the course is *Essentials of Development Economics* (2015) by Taylor and Lybbert. It is available through the campus bookstore. We will use some sections of Debraj Ray's *Development Economics* (1998), and some journal articles by other authors.
- The reading list is below. *Readings marked with a star (*) are required reading, the rest are optional.* A hyperlink is provided for readings freely available online. Except for the textbook, the rest are available through the HKUST library through the "E-Journals" tab. Debraj Ray's *Development Economics* is on reserve for ECON 5420 in the library.
- You may find different versions of the same paper online, but the goal is to read the published (i.e. final) version. Please use the HKUST library to locate the same version that is listed in the reading list. **Please contact the TA if you have trouble locating any of the reading material.**

Reading List

1. **What is Development Economics About?**

   *Taylor, J. Edward and Travis J. Lybbert (2015), "What Development Economics is All About", Ch. 1, in *Essentials of Development Economics*, pp. 1-22.

2. **Micro Empirical Methods in Development**

   *Taylor, J. Edward and Travis J. Lybbert (2015), "What Works and What Doesn't", Ch. 2, in *Essentials of Development Economics*, pp. 23-66.

   Deaton, Angus (2010), "Instruments, Randomization and Learning About Development", *Journal of Economic Literature*, Vol. 48, June, pp. 424-455. DOI: 10.1257/jel.48.2.424

3. **Poverty & Inequality**

   *Taylor, J. Edward and Travis J. Lybbert (2015), "Poverty", Ch. 4, in *Essentials of Development Economics*, pp. 90-109.

   *Taylor, J. Edward and Travis J. Lybbert (2015), "Inequality", Ch. 5, in *Essentials of Development Economics*, pp. 110-131.

4. **Economic Growth & Poverty Reduction**

   *Dollar, David and Aart Kraay (2002), "Growth is Good for the Poor", *Journal of Economic Growth*, Vol. 7, No. 3, pp. 195-225. DOI: 10.1023/A:1020139631000

*Ravallion, Martin (2001), "Growth, Inequality and Poverty: Looking Beyond the Averages", *World Development*, Vol. 29, No. 11, pp. 1803-1815. DOI: 10.1016/S0305-750X(01)00072-9

Dollar, David, Tatjana Kleineberg and Aart Kraay (2013), "Growth Still Is Good for the Poor", World Bank Policy Research Working Paper 6568. DOI: 10.1596/1813-9450-6568

5. **Human Development**

*Taylor, J. Edward and Travis J. Lybbert (2015), "Human Development", Ch. 6, in *Essentials of Development Economics*, pp. 132-166.

*Ye, Xiao and J. Edward Taylor (1995), "The Impact of Income Growth on Farm Household Nutrient Intake: A Case Study of a Prosperous Rural Area in Northern China", *Economic Development and Cultural Change*, Vol. 43, No. 4, pp. 805-819. DOI: 10.1086/452187

*Chen, Yuyu and Li-An Zhou (2007), "The Long-Term Health and Economic Consequences of the 1959-1961 Famine in China", *Journal of Health Economics*, Vol. 26, No. 4, pp. 659-681. DOI: 10.1016/j.jhealeco.2006.12.006

6. **Agriculture**

*Taylor, J. Edward and Travis J. Lybbert (2015), "Agriculture", Ch. 9, in *Essentials of Development Economics*, pp. 214-243.

Zhang, Xiaobo and Dinghuan Hu (2014), "Overcoming Successive Bottlenecks: The Evolution of a Potato Cluster in China", *World Development*, Vol. 63, November, pp. 102-112. DOI: 10.1016/j.worlddev.2013.10.003

7. **Structural Transformation**

*Ray, Debraj (1998), "Rural and Urban", in *Development Economics*, Princeton: Princeton University Press, Ch. 10, 353-388.

Taylor, J. Edward and Travis J. Lybbert (2015), "Structural Transformation", Ch. 10, in *Essentials of Development Economics*, pp. 244-270.

8. **Characteristics of Agrarian Economies**

*Ray, Debraj (1998), "Markets in Agriculture: An Introduction", in *Development Economics*, Princeton: Princeton University Press, Ch. 11, pp. 403-414.

9. **Credit Markets**

*Ray, Debraj (1998), "Credit Markets" in *Development Economics*, Princeton: Princeton University Press, Ch. 14.

*Ray, Debraj (1998), "Inequality, Capital Markets and Development" in *Development Economics*, Princeton: Princeton University Press, Section 7.2.8, pp. 226-237.

10. **Microcredit**

*Armendariz de Aghion, Beatriz & Jonathan Morduch (2005), "Roots of Microfinance: ROSCAs and Credit Cooperatives" in *The Economics of Microfinance*, Cambridge, USA: MIT Press, Ch. 3, pp. 57-68.

*Armendariz de Aghion, Beatriz & Jonathan Morduch (2005), "Group Lending" in *The Economics of Microfinance*, Cambridge, USA: MIT Press, Ch. 4, pp. 85-96, 108-118.

Assessment scheme

Class Participation 15%

Your class participation score will depend on how often you raised questions, answered questions or made comments. Students who participate more actively will get more marks. *Attendance and participation are not the same thing*, although of course one is a necessary condition for the other!

Homework 15%

There will be 6 homework assignments for this course. You are expected to do each one. Each assignment must be completed individually: you may discuss the assignment with your classmates but you must submit your own work. Each submission will be given a score out of 10 marks and will be returned to the student. At the end of the semester, we will take into account your top 5 homework scores to evaluate your grade.

Discussion of Homework 10%

On each day when a homework is due, we will spend the first half of the class discussing the answers to the homework. For each homework assignment, one or two students will lead the discussion. Other students are expected to contribute as well (see the next item).

The discussion leaders will receive a score. The score will depend on how well they communicate how they answered the questions, and the logic behind their answers. It is less important that their answers be correct, it is more important that they be able to explain them clearly.

Contribution to Homework Discussion 5%

At each homework discussion, non-presenters are also expected to contribute to the discussion. They can do this by asking questions, volunteering to show how they answered some part of the homework, or by making comments on alternative approaches, possible problems, etc. At the end of the semester,

students will receive a score based on how often they made such contributions.

Midterm Exam 25%

The midterm exam will be held during class time (10:30 to 11:50 am) on **Monday, March 21**, in our regular classroom. This will be a closed-book exam based on the material covered from the beginning of the course until March 16 (inclusive). Please mark the date on your calendar now – it is not possible to schedule make-up exams.[1] Questions will be designed to test your understanding of the lectures and the starred readings.

Final Exam 30%

The final exam will be held as per the final examination timetable posted by the Academic Records and Registration team at the Academic Registry. *Please note: The final exam will cover material from after the midterm until the end of the course.*

Academic honesty

Academic dishonesty is immoral and unfair, and I take a very serious view of it. You must be aware of HKUST's policy on academic integrity, and abide by its provisions. I will report all cases of suspected misconduct to the Dean's Office, and their decision will be final and binding.

Course schedule

Class	Date	Topics
L1	Feb 1	What is Development Economics About?
L2	Feb 3	Empirical Methods
L3-L5	Feb 15-22	Poverty & Inequality
L6-L7	Feb 24-29	The Link between Growth & Poverty Reduction
L8-L10	Mar 2-9	Human Development
L11-L12	Mar 14-16	Agriculture
L13	Mar 21	————MIDTERM EXAM: 10:30-11:50 am, LSK 1032————
L14-L16	Mar 23-Apr 6	Structural Transformation
L17	Apr 11	Agrarian Economies
L18-L21	Apr 13-25	Credit Markets
L22-L24	Apr 27-May 9	Microcredit

The course schedule is tentative. Exact dates, topics or readings may change. Please keep an eye out for course announcements.

[1] Absence from exams is only permitted in exceptional circumstances, for which documentary evidence may be requested. I will follow up to confirm the situation.