Course Description
Economic Development Policy concerns the nature and consequences of policies designed to promote welfare-augmenting growth and structural change. This requires a micro-analytic perspective that accommodates induced institutional change and a welfare economics suitable for analyzing the static and dynamic consequences of policy reform. Topics include: Specialization and Market Evolution, Justice and Inequality, Land, Labor, and Credit Policies, the New Institutional Economics, Developing Agriculture and Industry, The Political Economy of Corruption, Sustainable Development, the Asian Miracle and Crisis, the Washington Consensus (before and after Stiglitz) and the Hawaii Synthesis. A central theme will involve contrasting development paradigms including the new Development Microeconomics, the New Institutional Economics and New Classical Microeconomics (aka Organic Coasean Theory of Economic Development). Students are encouraged to suggest additional topics for group discussion.

Learning Objectives
(1) prepare students to distinguish and critically evaluate alternative approaches to economic development policy; (2) develop students’ intuition and modeling skill in explaining microeconomic development patterns, especially for policy analysis (3) engage students in critical thinking and application of public policy analysis to problems regarding development.

Organization: Our strategy will be to use Thirlwall as background on the conventional wisdom regarding development economics. Articles, chapters, and lectures will be oriented toward major policy issues and methods in order to enable students to conduct original policy research.

Recommended Text

Useful references
Roumasset, Behavior and Organization in Developing Agriculture (mnscpt)
World Development Report 2008: Agriculture and Development
Yang, Economic Development and the Division of Labor
Banerjee and Duflo, Poor Economics
Ray, Development Economics or Perkins et al., Perkins et al., Economics of Development
Rodrik, The Globalization Paradox, and One Econ, Many Recipes.
Handbook of Development Economics, Vols. 3-5, Elsevier
Dixit, The Making of Economic Policy (1996) and Lawlessness and Econ
Bardhan&Udry, Readings in Dev Econ I&II.
Mookherjee, Readings in the Theory of Economic Development

1 Office hrs. Tue, 1:30-3:00 and by appt. (jimr@hawaii.edu)
Stiglitz: Econ of Info and http://works.bepress.com/joseph_stiglitz/12
Piketty, Capital in the 21st Century.

Grading

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Reading and Topics

I. Introduction (Role of Government in the Structural Transformation)

A. The stylized facts of economic development: Thirlwall, ch 3, 6.
B. The Solow model for explaining Kuznets stylized facts: Thirlwall, 146-150.
C. Krugman, “The Fall and Rise of Development Economics” (online)
F. Gligorov, Backwardness: Failures to Industrialise. Read his very brief discussion of Krugman’s toy model. Skim for discussion of Murphy et al.
G. Power, "Role of Protection…," EAER, 6/72, esp. history of thought in econ dev and big-push/balanced-growth fallacy.
H. Banerjee and Duflo, Growth Theory thru the Lens of Development Economics, ch 7 in Handbook of Dev Econ and online.
I. Mookherjee et al., New Directions in Development Economics: Theory or Empirics?
J. Demography, Urbanization, and Development (Laulima; skim)
K. Jorgenson, The Development of the Dual Economy, (skim)

II. Welfare-theoretic Foundations of Development Policy

A. “Welfare Economics and the Minimal Role of Government: An Axiomatic Approach,” and Development is Letting Go of Fear (Laulima)
B. Appendices
   5. Proof of 5a http://ideas.repec.org/a/cje/issued/v31y1998i4p952-974.html *
C. Thirlwall, ch. 10.

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2 Two-page (max) typed proposal, end of week four. Paper due day of penultimate class. (If your paper is closely related to a paper you are doing, or have done, for another class, explain how the current paper differs and why it is relevant for this course.)
3 See UHM Schedule of Classes.
III. Development Microeconomics I: Behavior
A. Household decision-making w/transaction costs
B. Decision-making among low-income farmers
C. Research topic: Show that maximizing farm-household utility is equivalent to maximizing shadow profits.
C. Readings
  5. Behavior and Organization in Developing Agriculture, chs 3, 5.

III. Development Microeconomics II: Organization
A. Choice of contracts in space and time
B. Government intervention in land, labor and credit markets (e.g., land reform, usury laws and insurance)
C. Induced institutional change
D. Research topics: Crop insurance revisited; Collateral confusion & the case against land titles.
E. Readings
  1. B&O, chs 6, 7. Also govt failure chs 10, 11.
  2. Handbook, v. 3 (chapt. by Binswanger and on Rural Credit)*
9. Townsend, ch 9 in B&U II.*
11. Deweaver and R’set, Beyond Stiglitz, A Dynamic Theory of Share Tenancy
14. Conning and Kevane “Why Isn’t There More Financial Intermediation in Developing Countries?”*
16. Besley, “Savings, Credit, and Insurance,” Handbook, ch 36*

   A. Yang, Development Economics (introduction by Sachs), esp chs 1,3, 4, 9, 14.
   C. Day, The Rise and Fall of Manorialism* Note connection to Coasean firm. See also Foley, Stabilization of human population through increasing returns, Economics Letters 68 (2000) 309-317*
   E. Tarui&R’set, “Governing the Resource.”

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H. Dixit, Governance institutions and economic activity, AER, 2009. Dixit, Lawlessness and Econ on Ostrom (pp 125-133).*


J. Munshi, *Institutional Change in the Non-Market Economy* *

V. Poverty-alleviation and disaster-risk management

B. Banerjee, ch 6 in Banerjee and Duflo.
D. [Ravallion, Pro-Poor Growth: A Primer](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=12969)*

VI. Sustainable growth and development

A. Weitzman, in *QJE*, 1976, 65-94*
B. Endress, Roumasset, and Tzou, *Sustainable Growth: A Ramsey-Koopmans Approach* or *Sustainable Growth w/o Constraints*
E. B&U, ch. 13*
G. Research topic: Incorporate endogenous population into sust growth model.

VII. (1st) Second-Best Policy Analysis

A. Benefit cost analysis
B. Applied general equilibrium approaches to policy analysis
C. Infrastructure and pricing policies
D. Spatial and Temporal Consequences of Intervention
E. Research topics: Replicate F5 or F6
G. Readings
1. Thirlwall, ch 11.
8. Rashid et al. (2005), “Grain Parastatals in Asia: Why Do they Have to Change Now?”* (online)

VIII. Trade Promotion, Asian Miracles/Debacles, Globalization, and 3rd best policy reform
C. World Bank, East-Asian Miracle, 1993*
D. Reconsidering the Washington Consensus, ch 12.
E. Panagariya (google Miracles, Debacles, Trade)
G. Roumasset, “The Political Economy of Corruption”
H. Alesina, “Corruption, Inequality, and Fairness.”*
I. Balisacan & R’set (reproduced in B&O, ch.
Summary and blackhole diagrams available in WP 02-10.
K. Hoff, Beyond Rosenstein-Rodan: The Modern Theory of Coordination Problems in Development.