

# ECO 324Y1

## ECONOMIC DEVELOPMENT

University of Toronto  
Department of Economics

Fall 2010 – Spring 2011

**Lectures:** Monday 2:00 pm - 4:00 pm, Friday 2:00 pm – 3:00 pm  
Sidney Smith Hall (100 St. George St.), Room 1087

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Office hours: Tuesday  
3:00pm-4:00pm (by appointment)  
4:00pm-5:00pm (drop-in)

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### COURSE DESCRIPTION

The course provides a survey of current economic issues faced by less developed countries and an introduction to the study of development economics. The course has two main objectives: (i) to critically examine the major debates in the problems of international economic development and (ii) to integrate economic theory and empirical analysis to answer questions pertinent to economic policy in developing economies. A lot of attention will be paid to contemporary issues and policy aspects.

We will cover the following topics in detail: the concepts and measurement of economic development; theories of economic growth and development; human capital (education and health) and household decision-making; credit and insurance; gender and development; inequality and development: economic and political interconnections; the roles of the state; international trade and trade policy; the foreign aid debate; debates regarding the ‘ultimate’ determinants of economic development.

The course assumes a strong grounding in intermediate microeconomics, macroeconomics, and basic statistics. Given the empirical emphasis of the material, knowledge of basic econometrics will also be essential, though some of the most important econometric results will be reviewed in class. We will also review basic concepts in game theory in class and tutorials.

### PREREQUISITES

Microeconomic Theory – ECO200Y/204Y/206Y

Macroeconomic Theory – ECO202Y/208Y/209Y

Quantitative Methods in Economics – ECO220Y/227Y/STA(247H,248H)/(250H, 255H)/(257H, 261H)

Note: Prerequisites are strictly checked and enforced and must be completed before taking this course. By taking this course you acknowledge that you will be removed from the course at anytime if you do not meet all requirements set by the Department of Economics. Please talk to Ms. Robbie Innes (Undergraduate Administrator, Department of Economics) if you have any doubt about whether you meet the requirements.

I expect that you will be able to perform basic calculus (i.e., take simple partial derivatives) and have a basic understanding of game theory. The TA will offer brief reviews of the more advanced background material.

## MEETINGS

Most lectures are Mondays, 2:10 to 4:00, in SS1087. We will also make some use of the Friday time slot (2:10 to 3:00, SS1078), especially to accommodate time for tutorials and for additional time to cover material. I will announce ahead of time whether we will be using the Friday slot in a particular week.

## COURSE MATERIALS

Required Readings: Articles and book chapters listed in the Course Outline and Readings Section will be linked to the course website as necessary.

### Required Textbook:

Ray, Debraj. Development Economics. Princeton, NH: Princeton University Press. 1998.

The textbook is available at the Short-Term Loan Service at the Robarts Library (4th Floor) in a very limited number (one copy). Because it is not a new textbook, you should be able to find used copies online (e.g., [www.chapters.indigo.ca](http://www.chapters.indigo.ca), [www.amazon.ca](http://www.amazon.ca)) at substantial discounts.

We will also read Chapters 1 and 3 of the following book (in Section 6 of the course):

Besley, Timothy. Principled Agents? The Political Economy of Good Government. Oxford: Oxford University Press. 2006.

This book is also available at the Short-Term Loan Service at the Robarts Library (4th Floor; one copy). It is also available as an e-book, in the following link: <http://simplelink.library.utoronto.ca/url.cfm/85499>.

## COURSE WEBSITE

The course website is on the UofT Blackboard Portal:

**Fall-2010-ECO324Y1-Y-LEC0101: Economic Development.**

The website is an important means by which I make announcements to the class, as well as distribute additional readings and practice questions. We will be using Blackboard to manage class communications, so it is vital that you log on to Blackboard and provide an email address that you check regularly.

## E-MAIL POLICY

I will do my best to respond to e-mail within 24 hours on a weekday, 48 hours on a weekend, according to the following policy:

- a) I will only respond to e-mails posing questions that can be answered in a sentence or two. For detailed questions, please see me or the TA in office hours.
- b) I will not reply to e-mails that request information that can be found on the website or the syllabus, so you should check those places first.
- c) I will not reply to e-mails regarding the results of graded material – for that, please see me in office hours.

## EVALUATION

### Graded Material and Grade Allocation

The final grade for the course is based on the following:

<u>Percentage</u>	<u>Component</u>	<u>Date(s)</u>
50%	Two (2) in-class term tests, each worth 25%	Midterm 1: November 15 <sup>th</sup> , 2009 Midterm 2: February 7 <sup>th</sup> , 2010
10%	Five (5) <i>announced</i> pop quizzes, each worth 2%	n/a
10%	Two (2) assignments, each worth 5%	n/a
30%	Final Exam	<b>TBD</b>

The centerpiece of the tests will be the theoretical and empirical analysis of economic development issues in the context of the course readings and class discussions. **The term tests are not cumulative;** they only cover materials since the last midterm. **The final examination will be cumulative.** Classroom participation may be a factor in borderline grading cases.

### Appeals Policy:

Appeals will be conducted according to the following procedure:

- Please *type* a short paragraph explaining the grievance and why you should obtain additional points. Give a hard copy of this document to me or your TA.
- Conditional on this argument being found persuasive by me, the *entire* exam will be re-graded. Your score can go *up or down*.

Grading is an imprecise science, points are often given that are not deserved and taken away when they are deserved. Please think carefully about your choice of whether to appeal a mark. Note: This does not apply to trivial appeals such as points being added incorrectly.

### Policy on Missed Tests

**Midterm Exams and Quizzes:** If you miss any one of the two midterms or a quiz (a “term test”) due to illness you will need a note from your doctor documenting that you were unable to attend class on the relevant date (notes that simply state that your doctor saw you on the date of the midterm will not be accepted).

If you miss one of these term tests due to another excused absence (e.g. funeral, car accident), this excuse must be accompanied by a note from a responsible adult that I can verify *in order for excusal to even be considered*. The validity of these excuses will then be evaluated by the undergraduate chair.

You must get the relevant note to me within a week of the date of the term test; if you are late getting the note to me you will receive a mark of 0 for the missed midterm or quiz. If I receive an appropriate note in time, the weight for the missed term test(s) will simply be transferred to the final.

**Final:** The final will be governed by the University’s rules for missing final examinations.

### Practice Questions

I will periodically assign questions and problem sets on the web page that are taken either from the text or from past midterms and exams. While these questions will not be collected for grading, you are expected to complete them (doing so is essential to get a good mark in the class). If you have any

problems with the questions from a particular section, please see the TA or me about them as soon as possible during office hours.

## TEACHING ASSISTANT

Ms. Julie Wilson ([julie.wilson@utoronto.ca](mailto:julie.wilson@utoronto.ca)). Teaching Assistant office hours will be posted on the course website.

## ACADEMIC MISCONDUCT

Students should note that copying, plagiarizing, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero on the test or examination to dismissal from the university as outlined in the academic handbook. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties.

## COURSE OUTLINE AND READINGS (LISTED LECTURES APPROXIMATE):

\* = suggested reading

### 1. Economic Development and Development Economics

Ray, Debraj (1998). Chapter 1 (“Economic Development: Overview”) in Development Economics. Princeton, NH: Princeton University Press.

Sen, Amartya. “The Perspective of Freedom.” Chapter 1 in Development as Freedom. Oxford: Oxford University Press. 1999.

### 2. Social Welfare and Development

[Tools: Social welfare and poverty analysis]

Sen, Amartya. “Poverty as Capability Deprivation.” Chapter 4 in Development as Freedom. Oxford: Oxford University Press. 1999.

Deaton, Angus (1997). The Analysis of Household Surveys: A Microeconometric Approach to Development Policy, Section 3.1 (“Welfare, Poverty, and distribution”), pp. 133-161.

Ray, Debraj (1998). Chapter 6 (“Economic Inequality”) in Development Economics. Princeton, NH: Princeton University Press.

Besley, Timothy and Robin Burgess (2003). “Halving Global Poverty”, Journal of Economic Perspectives, 17(3), pp. 3-22

The Economist. 2001. “Winners and losers.” Vol. 359, Iss. 8219, p. 72 (April 28).

<http://proquest.umi.com/pqdlink?did=72461241&sid=4&Fmt=3&clientId=12520&RQT=309&VName=PQD>

### 3. Economic Growth and Development

[Tools: Economic growth theory; Ordinary least squares (OLS) regression]

Ray, Debraj (1998). Chapter 3 (“Economic Growth”) in Development Economics. Princeton, NJ: Princeton University Press.

Easterly, William (2001). “Solow’s Surprise: Investment is Not the Key to Growth”, Chapter 3 in *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*. MIT Press: Cambridge, MA, pp. 47-69.

\*Meier, Gerald M., and James E. Rauch. (2005). “Appendix: How to Read a Regression Table”, *Leading Issues in Economic Development, Eight Edition*, pp. 633-638.

\*Ray, Debraj (1998). Development Economics, Princeton, NJ: Princeton University Press. Appendix 2 (“Elementary Statistical Methods”), pp. 777-804.

### 4. Human Capital Investments and Household Decision-Making

[Tools: Partial equilibrium analysis; Randomized evaluation]

Todaro, Michael, and Stephen C. Smith, Chapter 8 (“Human Capital”), in Economic Development. Boston, MA: Addison-Wesley. pp. 363-392, 392-412.

Easterly, William (2001). “Education for What?” Chapter 4 in *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*. MIT Press: Cambridge, MA, pp.71-85.

The Economist. 2002. “Education in Latin America: Cramming them in.” 363(8272), p. 63 (May 11).  
<http://proquest.umi.com/pqdlink?did=119607460&sid=1&Fmt=3&clientId=12520&RQT=309&VName=PQD>

The Economist. 2005. “Poverty in Latin America: New thinking about an old problem.” 376(8444), p. 58 (September 17).  
<http://proquest.umi.com/pqdlink?did=899363031&sid=2&Fmt=3&clientId=12520&RQT=309&VName=PQD>

Bobonis, Gustavo, and Frederico Finan. (2008). “Neighborhood Peer Effects in Secondary School Enrollment Decisions.” Review of Economics and Statistics, 91(4), 695-716.

Duflo, Esther (2005). “Gender Equality and Development”, unpublished working paper, MIT.

\*Mankiw, N. Gregory, David Romer, and David N. Weil. (1992). “A Contribution to the Empirics of Economic Growth.” Quarterly Journal of Economics, 107(2), 407-437.

### 5. Inequality and Development: Economic and Political Interconnections

Ray, Debraj. “Inequality and Development: Interconnections” (Chapter 7) in Development Economics. Princeton, NH: Princeton University Press.

Parker, John. 2009. “Notions of shopkeepers: The new middle classes in emerging markets.” *The Economist* Vol. 390, Iss. 8618 (February 14<sup>th</sup>).  
<http://proquest.umi.com/pqdweb?did=1646559341&sid=1&Fmt=3&clientId=12520&RQT=309&VName=PQD>

\*Banerjee, Abhijit, and Esther Duflo (2003). “Inequality and Growth: What Can the Data Say?”, Journal of Economic Growth, 8(3), 267-299.

## **6. The Role(s) of the State (Fixing Market Failures... and Government Failure)**

[Tools: Political agency theory; Elementary game theory]

Besley, Timothy. 2006. Chapter 1 (“Competing Views of Government”) in *Principled Agents? The Political Economy of Good Government*. Oxford: Oxford University Press.

Besley, Timothy. 2006. Chapter 3 (“Political Agency and Accountability”) in *Principled Agents? The Political Economy of Good Government*. Oxford: Oxford University Press.

Ferraz, Claudio, and Frederico Finan. (2008). “Exposing Corrupt Politicians: The Effect of Brazil’s Publicly Released Audits on Electoral Outcomes.” *Quarterly Journal of Economics*, 123(2), 703-745.

Svensson, Jakob (2005). “Eight Questions about Corruption”, *Journal of Economic Perspectives*, 19(3): 19-42.

\*Acemoglu, Daron, et al (2008). “Income and Democracy.” *American Economic Review*, 98(3), 808-842.

\*Ray, Debraj (1998). *Development Economics*, Princeton, NJ: Princeton University Press. Appendix 1 (“Elementary Game Theory”), pp. 757-775.

## **6. International Trade and Trade Policy**

[Tools: Theoretical application - General equilibrium and political economy]

Feenstra, Robert C., and Alan M. Taylor Smith, Chapter 4 (“Trade and Resources: The Heckscher-Ohlin Model”) in *International Economics*. New York, NY: Worth Publishers.

Ray, Debraj (1998). Chapter 17 (“Trade Policy”) in *Development Economics*, Princeton, NJ: Princeton University Press.

Todaro, Michael, and Stephen C. Smith, Chapter 4 (“Underdevelopment as a Coordination Failure”), in *Economic Development*. Boston, MA: Addison-Wesley. pp. 145-166.

Schott, Jeffrey (2003). “Unlocking the benefits of world trade.” *The Economist*, 369(8348), p. 85 (November 1).

<http://proquest.umi.com/pqdlink?did=436467631&sid=5&Fmt=3&clientId=12520&RQT=309&VName=PQD>

Rodrik, Dani (2001). “Trading in Illusions.” *Foreign Policy*, March/April, pp. 55-62.

Bates, Robert (1981). *Markets and States in Tropical Africa*, Univ. of California Press: Chapters 1, 2

## **7. The Foreign Aid Debate**

Easterly, William (2001). “The Loans That Were, the Growth That Wasn’t.” Chapter 6 in *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*. MIT Press: Cambridge, MA, pp.101-121.

Leonard, David K. and Scott Strauss (2003). “Chapter 2: Debt and Aid: Righting the Incentives”, in *Africa’s Stalled Development: International Causes and Cures*. Lynne Rienner Press. pp. 21-35.

## **8. Geography, Institutions, and History**

Acemoglu, Daron (2003). “Root Causes: A historical approach to assessing the role of institutions in economic development”, Finance and Development, 27-30.

Acemoglu, Daron, Simon Johnson, and James Robinson (2001). “The Colonial Origins of Comparative Development; An Empirical Investigation.” American Economic Review, 91(5), 1369-1401.

Sachs, Jeffrey (2003). “Institutions Matter, but not for Everything”, Finance and Development, 38-41.

Engerman, Stanley L. and Kenneth L. Sokoloff (2000). “Institutions, Factor Endowments, and Paths of Development in the New World”, Journal of Economic Perspectives, 14(3), pp. 217-232.

Diamond, Jared (1997). Guns, Germs, and Steel: The Fates of Human Societies, Chapters 4 (“Farmer Power”) and Chapter 5 (“History’s Haves and Have-nots.”)