While some countries have achieved unprecedented rates of economic growth in the past half century, other countries have experienced set-backs. For those that have seen rapid growth, economic changes have not always translated into proportional social changes – and sometimes rapid social changes have occurred in the absence of economic growth.

This course takes up issues of economic growth and social change in a comparative perspective. The course begins by reviewing the relationships between poverty, inequality, and economic growth. In that context, attention then turns to the role of markets, with a focus on local financial markets. In the second part of the semester, attention turns to policy interventions to improve education and reduce child labor, confront rapid population growth, reduce the burden of disease, and strengthen safety nets.

We will use the following texts:


The texts will be supplemented by additional readings. The texts are also on reserve at Bobst.
Course Requirements

The course requirements are a mid-term examination, a final examination, and two problem sets. Grades will be calculated according to:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation</td>
<td>10%</td>
</tr>
<tr>
<td>Problem sets</td>
<td>15%</td>
</tr>
<tr>
<td>Mid-Term Exam</td>
<td>30%</td>
</tr>
<tr>
<td>Final Examination</td>
<td>45%</td>
</tr>
</tbody>
</table>

Schedule

2. 1/28 & 1/29: Foreign Aid.
3. 2/4 & 2/5: Defining poverty and inequality. Relationships between poverty, inequality, and economic growth. **Problem set 1 due (economic growth rates)**
5. 2/18 & 2/19: Microfinance: a new policy paradigm?
6. 2/25 & 2/26: Saving and asset-building. **Problem set 3 due (credit and insurance)**
8. 3/11 & 3/12: **Mid-term exam (in class)**
9. Spring Break
10. 3/25 & 3/26: Markets and technology adoption
11. 4/1 & 4/2: Population and Growth. **Problem set 4 due (population)**
12. 4/9: Education  [4/8 section cancelled, Passover]
13. 4/15 & 4/16: Gender and the intra-household allocation of resources
14. 4/22 & 4/27: Health **Problem set 5 due (health)**
15. 4/29 & 4/30: Corruption
16. 5/7: **Final exam (take-home) due**
Readings

> Recommended reading

1. Introduction to theories of development. Global trends and the scope of challenges.

Development Economics is a relatively young field, arising just after World War II, as many colonies were gaining independence from Europe. We begin by setting out early debates and the current state of the world.


> Millenium Development Goals. See www.developmentgoals.org

2. Economic Growth and Foreign Aid

Why do some countries grow richer while others don’t? Historically, patterns of economic growth have been driven by much more than just levels of investments and human resources. Recent evidence shows the roles of legal systems, political institutions, trade and tax policy, and geography, among other forces.


Before considering the relationship between economic growth and poverty, we need to be clearer about measurement issues. There is no “perfect” way to measure poverty and inequality, but there is consensus about key principles. The most appropriate method will often depend on the questions that we are asking. The World Bank’s “Voices of the Poor” project often yields quite different answers about what it means to be poor.

Does economic growth come at the expense of the poor? How does economic growth affect poverty and inequality? How can patterns of inequality affect levels of growth? The World Development Report highlights the translation of debate into action, but The Economist faults it for papering over Dollar’s and Kraay’s findings.


“Quantity and Quality,” The Economist (Economics Focus), 2000.


4. Access to financial services

Lack of insurance is part of a broader lack of access to financial services. This section shows how informational problems limit the scope of credit markets and restrict the role that the price mechanism plays to ration demand. This provides a framework with which to reevaluate standard policy prescriptions.

Beatriz Armendáriz de Aghion and Jonathan Morduch (2003), The Economics of Microfinance: Chapter 1: “Rethinking banking” Chapter 2: “Why intervene in credit markets?”

5. Microfinance

The root of credit market failures is lack of collateral. But new institutions like Bangladesh’s Grameen Bank and Bolivia’s BancoSol have shown that it is possible to secure high rates of repayment while lending to poor households. The key is a series of new mechanisms, most famously “group-lending” with joint liability. Yunus describes the early experience with Grameen, and Morduch’s papers describe a range of other programs, as well as emerging opportunities and tensions in the movement.


Beatriz Armendáriz de Aghion and Jonathan Morduch (2003), *The Economics of Microfinance*: Chapter 4: “Group lending”
Chapter 5: “Beyond group lending”
Chapter 7: “Gender”
Chapter 9: “Subsidy and sustainability”


> Freedom from Hunger: [www.freefromhunger.org](http://www.freefromhunger.org)
> Pro Mujer: [www.promujer.org](http://www.promujer.org)
> ACCION International: [www.accion.org](http://www.accion.org)
> Consultative Group to Assist the Poorest: [www.cgap.org](http://www.cgap.org)

6. Saving and Asset Accumulation

Households use a great variety of strategies to cope with misfortune and build assets for the future. Some are very effective, while others are less so – and none are costless.

Beatriz Armendáriz de Aghion and Jonathan Morduch (2003), *The Economics of Microfinance*: Chapter 6: “Saving and insurance”


Is there a role for the government in supporting these informal coping mechanisms? Can informal insurance effectively patch the safety net? Some argue that the lack of good ways to
save and insure are as critical as difficulties in borrowing. These papers take up debates and describe constraints and opportunities.

Debraj Ray, Chapter 15, pages 591 – 616.


8. Mid-term exam (In class)

9. Markets and technology adoption

Guest lecture by Hope Michelson, based on her research in Nicaragua on small-scale farmers and their relationship with supermarkets like Wal-Mart. Readings to be added to Blackboard

10. Population growth and the demographic transition


> The Population Council: www.popcouncil.org/

11. Education


12. Gender and the intra-household allocation of resources


Duflo, Esther. “Gender Inequality in Development.”


> Beatriz Armendáriz de Aghion and Jonathan Morduch (2003), *The Economics of Microfinance*: Chapter 7: “Gender”


13. Health


14. Corruption
Abhijit Banerjee, Roland Benabou, Dilip Mookherjee (eds.). *Understanding Poverty*, Chapter 11

