International economic development

P11.2230
Spring 2010
NYU Wagner Graduate School of Public Service
New York University

Wednesday, 2:00-3:40 pm and 6:45-8:25 pm, Bobst Library Lower Level 138

Jonathan Morduch
The Puck Building, Room 3028, (212) 998-7515
jonathan.morduch@nyu.edu
Office time: 4-5 p.m. Wednesday

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, confront rapid population growth, reduce the burden of disease, and confront corruption.

We will use the following texts:


The texts will be supplemented by additional readings.
Course Requirements

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

- Class Participation: 10%
- Problem sets: 5%
- Mid-Term Exam: 35%
- Final Examination: 50%

Schedule

2. 1/27: Foreign Aid.
4. 2/10: Coping with risk. Safety nets.
6. 2/24: Microfinance: a new policy paradigm? **Problem set due**
7. 3/3: Saving and asset-building
8. 3/10: **Mid-term exam (in class)**
9. 3/24: Child labor
11. 4/7: Education
12. 4/14: Gender and the intra-household allocation of resources
13. 4/21: Health **Problem set due**
14. 4/28: Corruption

5/5: **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.

Schaffner. Chapter 1 – Introduction. [See pp. 1-7 for data on the scope of challenges. The balance of the chapter describes the definition of development and provides an overview of the UN Millennium Development Goals.]

> **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.

Schaffner. Chapter 3 – Growth. The first part of the chapter (pp. 1-8) is the key focus. It discusses “what is growth,” “how do we measure growth,” and gives facts on growth (e.g. “the rule of 72”). The rest of the chapter describes sources of growth and production functions, providing useful background.

Schaffner, Chapter 4 – Theories of economic growth. The chapter gives a good introduction to the theory of economic growth. We’ll discuss, in particular, the Harrod-Domar model (pp. 4-7). Skim the material up to pp. 26-29 on poverty traps, which provides a transition into the next class.

William Easterly, “The Quest for Growth: How we wandered the tropics trying to figure out how to make poor countries rich,”


The blackboard site has additional readings on aid, some critical of Easterly’s position, some supportive. Also see the Sachs-Easterly debate in *The Washington Post.*

3. **Defining poverty and inequality. Relationships between poverty, inequality, and economic growth.**

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. *Portfolios of the Poor* yields quite different answers about what it means to be poor.

**Measuring poverty**


Daryl Collins, Jonathan Morduch, Stuart Rutherford, Orlanda Ruthven. *Portfolios of the Poor: How the World’s Poor Live on $2 a Day*. Chapter 1

> Schaffner. Pages 1-18, Chapter 5 – Poverty, inequality and vulnerability. The first half (to page 18) gives another account of material covered by Morduch’s UN volume chapters.

**Poverty and growth**

Does economic growth comes 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 Bank’s *World Development Report* highlights the translation of debate into action, but *The Economist* faults it for papering over Dollar’s and Kraay’s findings.


Schaffner. Pages 22-30, Chapter 5 – Poverty, inequality and vulnerability. This reading nicely covers inequality, poverty, and growth.

**Recommended**


> Blackboard also has short pieces on poverty measurement.

**4. Coping with risk. Safety nets.**

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.


5. Access to financial services (guest lecture: Jonathan Conning)

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


6. 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.

Bank.

Beatriz Armendáriz 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
> Pro Mujer: www.promujer.org
> ACCION International: www.accion.org
> Consultative Group to Assist the Poorest: www.cgap.org

7. **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 and Jonathan Morduch (2003), *The Economics of Microfinance:*
Chapter 6: “Saving and insurance”


8. **Mid-term exam (In class)**

9. **Child labor**

Child labor is often viewed as an “insidious evil”. But some people see it as a coping mechanism for households with few resources. How should we think about child labor and policies to limit it? Low education levels are also a frequently-cited constraint on economic development, but it seems that parents often send children to work rather than school. Are child labor and schooling incompatible? Are low skill levels the result of coordination failures?


The Economist, “Sickness or symptom? Child labour is reviled. There is much debate as to how it can be reduced.” February 5, 2004.

Pham Hoang Van, “Child labor in Southeast Asia,” Cornell University, lecture notes on blackboard.


10. Population growth and the demographic transition


> The Population Council: www.popcouncil.org/

11. Education


In discussing evaluation methods, it may also be helpful to read the chapter on impact measurement in Armendáriz and Morduch, The Economics of Microfinance.

12. Gender and the intra-household allocation of resources
Schaffner. Chapter 7 – Households. The chapter covers the debate between unitary and non-unitary theories, and it touches on occupational choice and gender. See in particular the discussion of how unitary theories address gender (pp. 22-27) and how non-unitary theories address gender (pp. 29-32).

Duflo, Esther. “Gender Inequality in Development.”


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

> UNDP web: www.undp.org/gender/

> Oxfam web: www.oxfam.org.uk/policy/gender/lgender.htm


13. Health


14. Corruption

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