

THE UNIVERSITY OF WISCONSIN-MILWAUKEE
Department of Economics

Economics 296-353

Economic Development

Spring 2006

Instructor: **Dr. Hamid Mohtadi**

Course time: Tuesdays and Thursdays: 2:00-3:15, Bolton, room B95

Office: Bolton Hall, Room 850, Office hours: Wed. 3:00-5:00, or by appointment

Office phone: 229-5334, email: mohtadi@uwm.edu

Reading List

The majority of the earth's population live in what we call the underdeveloped or developing world. While these regions often enjoy rich cultural heritage and long histories, they remain economically undeveloped.

Economic underdevelopment encompasses various aspects of human suffering such as poverty, inequality, illiteracy, urban crowding, environmental degradation, short life span, high infant mortality and the like.

This course is has three aims: (a) It tries to describe the experience of underdevelopment from an economic point of view, (b) it tries to explain the economic causes and consequences of economic underdevelopment and, (c) it tries to suggest how economic policies and reforms can help to improve the welfare of the peoples of the developing world.

In terms of the background for the course, a solid understanding of micro and macroeconomics is important. Some algebra and statistics may be also helpful for the discussion and illustration of economic policies.

The course will have a **midterm take-home exam**, a **final take-home exam**, and a few **homework** assignments. The Midterm exam will be given out **after part IV** in the syllabus is completed, as shown. This will be announced two weeks in advance, but will coincide roughly with the 7th to 8th week of the course. The take-home period will be 5 days. No make ups will be permitted, except under extraordinary circumstances **and** with **prior** permission. The final exam will be given out on the last day of classes and will be due on the regularly scheduled exam date. Regular class attendance and participation will constitute 5 % of the course grade.

The following textbook is assigned and most of the readings are from it. It is available from the University Bookstore.

Michael Todaro and Stephen Smith. Economic Development Addison Wesley Longman (New York, 2003) 9th Edition.

In addition, several of the lectures are **not** available in the textbook. Although, most of these lectures will be found in electronic reserve under my name and the course number, only regular class attendance will ensure a thorough understanding of the lecture material. Otherwise, students are responsible for lecture in which they were absent.

Note: Information on Economics Department policies on participation by students with disabilities, accommodation for religious observations, academic conduct, complaint procedure, grade appeal procedures and other standing policies (e.g., sexual harassment, incomplete) is available in the main office of Economics Department, Bolton 868.

COURSE OUTLINE

Optional readings are marked by (*).

I. BASICS: BACKGROUND, DEFINITION, EVIDENCE

1. Background

- a. How the other half live? Todaro and Smith, Ch. 1, pp. 3-8
- b. Film: “The Neighborhood of Coelhos, Brazil” Produced by the World Bank
- c. Definition and Basic Concepts. Todaro and Smith, Ch. 1, pp. 8-17 and class lectures.
- d. Sen’s Capabilities Approach. Todaro and Smith, Ch. 1, pp. 17-23. (skim)

2. Evidence

- a. Diversities and Similarities. Todaro and Smith, Ch. 2, pp. 33-79 and class lectures.
- b. Country Experiences:
 - Brazil. Todaro and Smith, pp. 25-32 and class lectures.
 - Taiwan and South Korea. Todaro and Smith, pp. 607-614, 554-659 and class lectures.
 - Latin America in comparison with East Asia. Class lectures.
 - Sub-Saharan Africa. Class lectures.
 - China. Todaro and Smith, pp. 174-179 and class lectures.

II. CLASSIC THEORIES OF DEVELOPMENT

1. Growth

Linear Stages Theory & Harrod Domar Growth Model, Todaro and Smith, Ch. 3, pp. 102-108.

2. Structural Approaches

- a. The Dual Sector Model of Lewis. Todaro and Smith, Ch.3, pp. 108-113.
- b. The Patterns of Development Approach by Chenery. Class Lectures and Todaro and Smith, Ch.3, pp. 113-114.
- c. Conclusions and Implications. Todaro and Smith, Ch.3, pp. 114-115.

3. The Dependency Perspective. Todaro and Smith, Ch.3, pp. 115-119.

4. New Neoclassical Theories

Free Markets, Public Choice and Market Failure.

Todaro and Smith, Ch. 3, pp. 119-121, and Class Lectures

* Bardhan, P., Jr. of Economic Perspectives, 1990, V. 4, pp. 37.

* Krueger, A., Jr. of Economic Perspectives, 1990, V. 4, pp. 923.

5. Traditional Neoclassical Growth Theory

The Solow Growth Model. Todaro and Smith, Ch. 3, pp. 121-124; and Appendix 3.1, pp. 136-139

6. Which theory is right?

a. Reconciling the differences. Todaro and Smith, Ch. 4. pp. 124-125.

b. Considering the Evidence:

i. A Comparison of Argentina and South Korea. Todaro and Smith, pp. 126-130.

ii. Case of Cuba. Class lectures.

iii. Case of Malaysia. Class lectures.

III. THE CONVERGENCE DIVERGENCE DEBATE

(Due to difficulty of the following 3 *asterisked* readings, the class lecture notes will suffice.)

* Baumol, William, "Productivity, Growth, Convergence, and Welfare," American Economic Review, 1986, Vol. 76, pp. 1072-1085.

* De Long, Bradford "Productivity, Growth, Convergence, and Welfare: Comment," American Economic Review, 1988, Vol. 78, no. 5 (Dec.) pp. 1138-1154.

* Baumol, William, and Wolff, "Productivity, Growth, Convergence, and Welfare: Reply," American Economic Review, 1988, Vol. 78, pp. 1155-11159

Todaro and Smith, Ch. 2, pp. 79-82.

IV. CONTEMPORARY MODELS OF DEVELOPMENT AND UNDERDEVELOPMENT

1. The New (Endogenous) Growth Theories

Todaro and Smith, Ch. 4, pp. 141-144.

2. Underdevelopment as a Coordination Failure & Multiple Equilibria

Todaro and Smith, Ch. 4, pp. 145-153.

3. Inequality, Multiple Equilibria and Growth

Todaro and Smith, Ch. 4, pp. 171-173.

Midterm Take Home Exam

V. POVERTY INEQUALITY AND DEVELOPMENT

1. Inequality

a. Measuring Inequality

Size Distribution, Lorenz Curve, Gini Coefficient. Todaro and Smith, Ch. 5, pp. 195-202.

Additional material from lecture notes.

* World Bank, World Development Report, 1999 (Oxford University Press, New York) (for statistics)

b. Social Implications. What is so bad about Inequality? Todaro and Smith, Ch. 5, pp. 207-209.

c. Evidence on Inequality and Development: Kuznets Hypothesis. Todaro and Smith, Ch. 5, pp. 212-216.

d. Evidence on Inequality and Growth

Todaro and Smith, Ch.5, pp. 216-218.

* Mohtadi, H. "Income Distribution and Growth: The Role of Capacity Utilization." Cambridge Journal of Economics, 1988, vol. 2, pp. 494-533. (Summarized in class lectures)

2. Poverty

a. Measuring Poverty. Todaro and Smith, Ch. 5, pp. 202-207.

b. Evidence on Poverty Trends and relation its to Growth. Todaro and Smith, Ch. 5, pp. 218-225.

c. Who are the Poor? Todaro and Smith, Ch. 5, pp. 225-232.

d. Policy Options. Todaro and Smith, Ch. 5, pp. 232-240.

e. Case Study: Microfinance in Bangladesh Todaro and Smith, Ch. 5, pp. 241-247.

VI. POPULATION GROWTH

Todaro and Smith, Ch. 6., pp. 262-301.

VII. URBANIZATION AND RURAL URBAN MIGRATION

Todaro and Smith, Ch. 7, pp. 312-347.

Lecture notes based on the following and other sources:

* Mazumdar, D. Segmented Labor Markets in the LDCs American Economic Review. (May, 1983), pp. 254-259.

* Mohtadi, H. Rural Stratification, Rural-Urban Migration and, Urban Inequality: Case of Iran. World Development. (June 1986), pp. 713-725.

VIII. TRADE POLICIES: IMPORT-SUBSTITUTION, EXPORT PROMOTION AND ECONOMIC INTEGRATION

Todaro and Smith, Ch. 12, pp. 555-606 (selectively covered).

Class Lectures, based on other sources.

IX. ENVIRONMENT AND DEVELOPMENT

Lectures based on the sources below and other sources.

* Mohtadi, H. “Environmentally Sustainable Development in the Middle East & North Africa,” in *Prospects for Middle Eastern and North African Economies*, 1997 edited by Nemat Shafik (London, Macmillan).

* Todaro and Smith, Ch. 10, pp. 470-501 and Class Lectures.

* World Bank World Development Report 1992. (Oxford University Press New York, 1992).

X. ASSESSING POLICY SUCCESSES AND AID

* Assessing Aid: What Works, What doesn't Work, and Why, The World Bank, Washington, DC, Oxford University Press, 1998.

Final Take Home Exam
