

COURSE OVERVIEW & INTRODUCTION TO ECONOMIC DEVELOPMENT

EE 462 Development Macroeconomics

Semester 1/2015

About the Instructor

- Name: Phatta Kirduang
- Education:
 - B.A. (Economics), McGill University, Canada
 - M.A. (Economics), University of British Columbia, Canada
 - Ph.D. (Major – Applied Economics, Minor – Health Services Research & Policy Administration), University of Minnesota, USA
- Fields of interest: Health economics, Development economics, Population studies
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- Office hours: Tues & Thurs, 2-3pm, and by appointment

Students' Background?

- Please introduce yourself:
 - Name & Nickname
 - Which year of the program are you at?
 - What makes you interested in development economics?
 - Have you taken EE461?
 - What do you expect from this class?
 - Any past experience with development field?
 - What's your future plan (particularly for 4th-year students)?
 - Others?

Course Contents

- Economic Growth
 - Concepts & Pattern
 - Theories of Economic Growth:
 - Neoclassical Growth Model
 - Endogenous Growth Models
 - Inequality and Poverty
 - Human Capital
 - Investment and Savings
 - Foreign Debt and Financial Crisis
 - Foreign Aid
 - Managing Short-Run Crisis in an Open Economy
 - Trade and Development & Trade Policy
- Before
midterm
- After
midterm

Readings

- Required Textbooks (on the reserve in Puey Library)
 - Perkin, D. H., Radelet, S., Lindauer, D. L., & Block, S. A. (2013). *Economics of Development*. Seventh Edition. W.W. Norton & Company.**
 - Jones, C. I. (2002). *Introduction to Economic Growth*. Second Edition. W. W. Norton & Company.
- Required journal articles – as indicated in the course outline.
 - Please check moodle regularly for updates (**enrollment key: 9866**) .
- Supplemental Textbooks:
 - Todaro, M., & Smith, S. (2011). *Economic Development*. Eleventh Edition. Prentice Hall.
 - Tournemaine, F. (2011). *Growth Theory: Basic Models with Alternative Applications*. Chulalongkorn University Press.
 - Ray, Debraj. (1998). *Development Economics*. Princeton University Press.
 - Agenor, Pierre-Richard and Montiel, Perter J. (2012). *Development Macroeconomics*. Second Edition. Princeton University Press.

Course Organization

- Meet every Wednesday and Friday, 9:30 – 11 am
- Lectures based style + class participation
 - Students are required to read assigned readings before class.
- Classroom *etiquette*:
 - Please refrain from using all electronic devices (i.e. no facebook, no line, etc.)
 - Students whose cellphone rings or have a message notification sound will be asked to read a journal article and present it in the next class.
 - Dress code: no shorts, sandals, tank-tops, or other informal wear .

Assessment

- Class attendance & participation (5%)
- Group paper and presentation (15%)
- Midterm exam (35%) – October 9, 2015
- Final exam (45%) – December 19, 2015

Group Presentation & Class Discussion

- Class participation
 - Ask questions or make comments if any.
 - Discussion based on assigned readings and course materials
- Group paper & presentation
 - Each group consists of 3-4 students.
 - Each group will do a research on a pre-determined topic (TBD after add-drop periods), and present it in class during the last week of the semester.
 - The report involves some data compilation, country analysis, and synthesis regarding the assigned topic.

Useful Websites

- World Bank <http://www.worldbank.org/>
- International Monetary Fund <http://www.imf.org/>
- Center for Global Development <http://www.cgdev.org/>
- Center for Economic Policy Research <http://www.cepr.net/>
- Peterson Institute for International Economics
<http://www.iie.com/>
- Asian Development Bank www.adb.org
- World Trade Organization www.wto.org
- National Bureau of Economic Research <http://www.nber.org/>

Other Information Sources

- [World Development Indicators](http://data.worldbank.org/data-catalog/world-development-indicators)**
(<http://data.worldbank.org/data-catalog/world-development-indicators>)
- [World Development Reports](#)
- World Factbook <https://www.cia.gov/library/publications/the-world-factbook/>
- International Financial Statistics <http://elibrary-data.imf.org/finddatareports.aspx?d=33061&e=169393>
- Penn World Tables <http://www.ggdcc.net/pwt>

INTRODUCTION TO ECONOMIC DEVELOPMENT

Some Terminology: Rich and Poor Countries

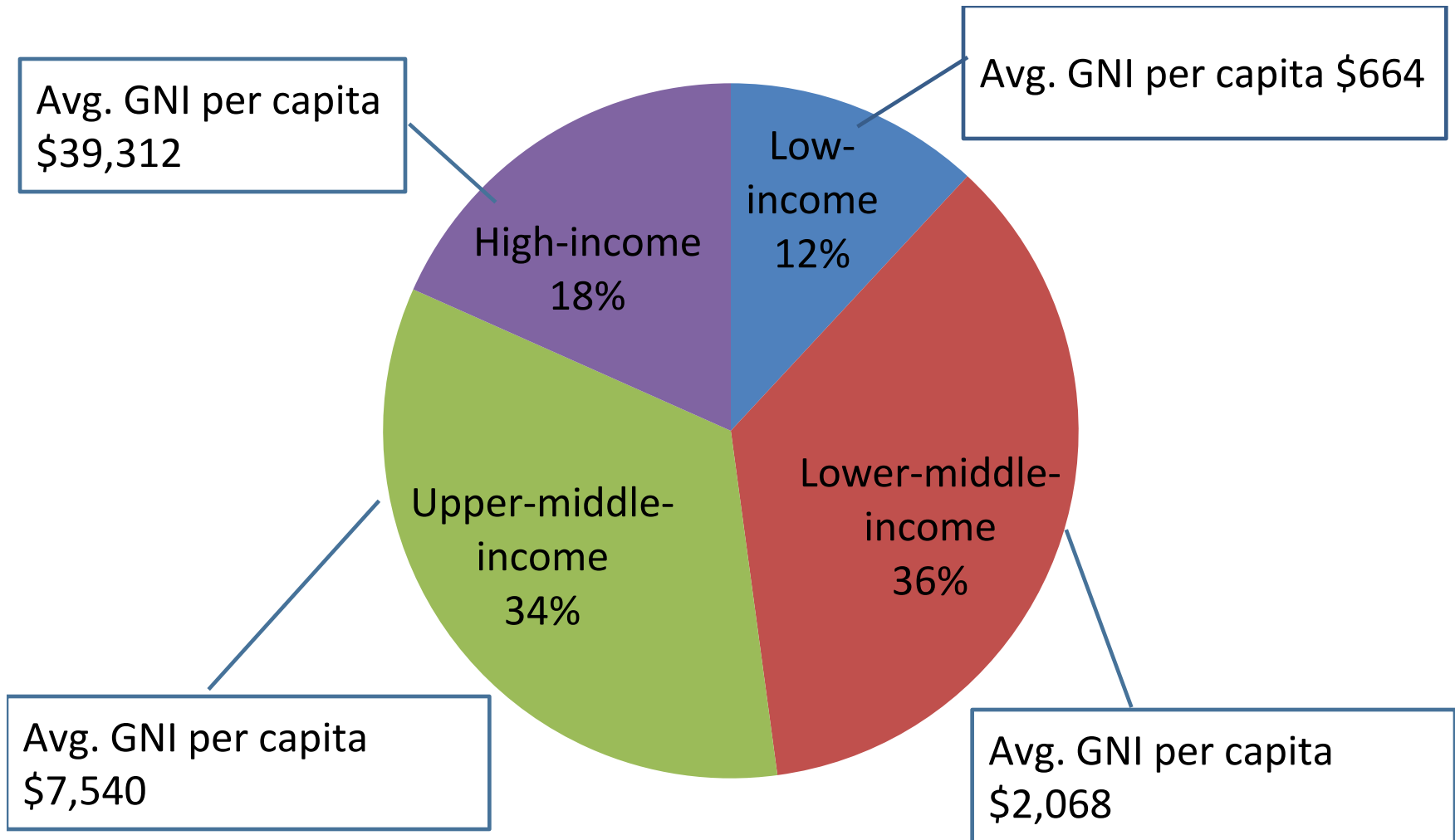
- “Older” classification
 - First World vs. Third World
 - North vs. South
- More recent classification
 - **Developed** countries vs. **Developing** countries (or **Less-developed** countries (LDCs))
 - **Least-developed** countries
 - Emerging economics
 - Industrialized countries

World Bank's Classification, 2013

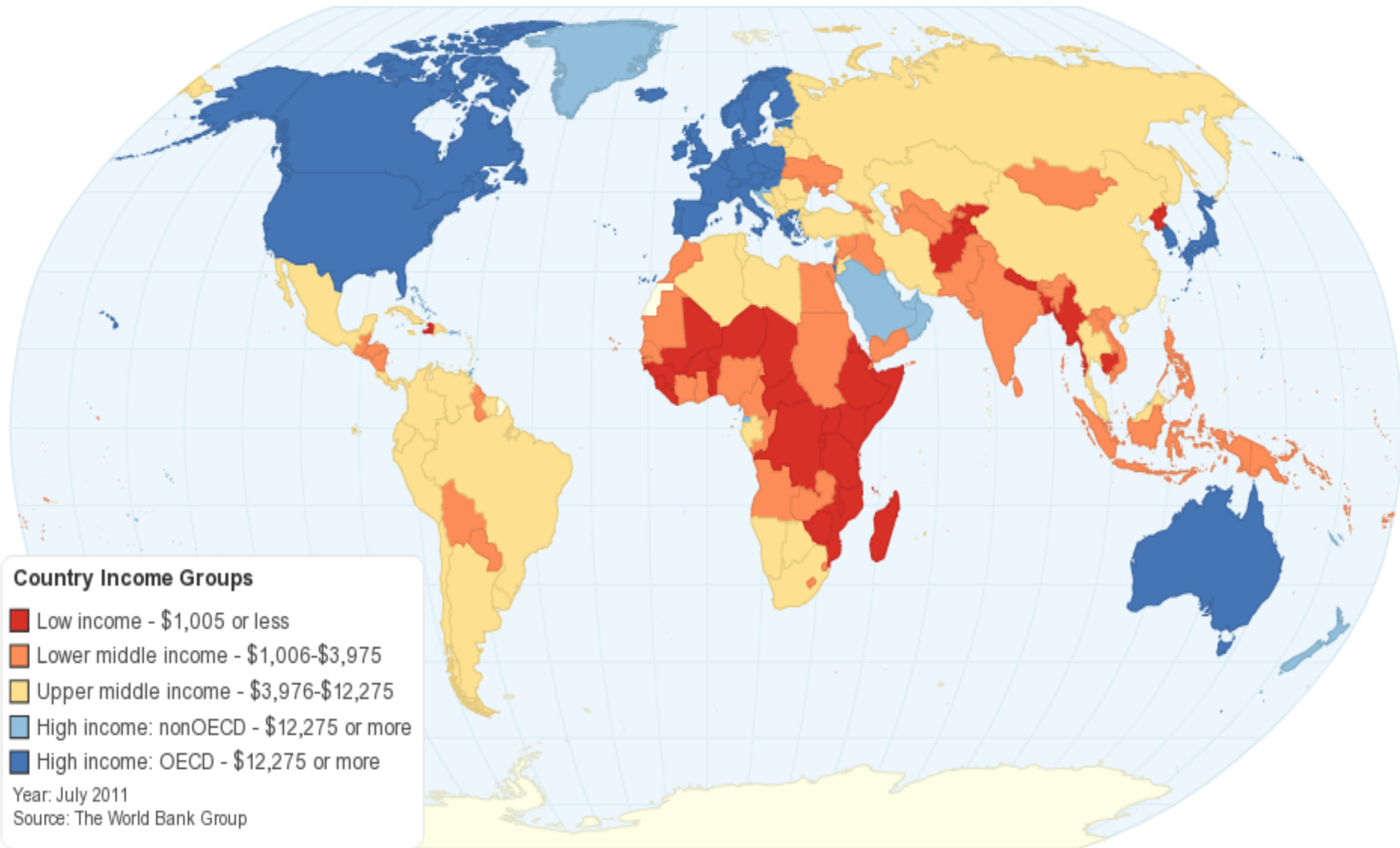
Category	GNI per capita (US\$)	Avg. Per Capita GNI (current US\$)	No. of Countries	Population in Millions (% of World Total)
Low-income	< \$1,045	\$664	34	849 (12%)
Lower-middle-income	\$1,066 - \$4,125	\$2,068	50	2,561 (36%)
Upper-middle-income	\$4,126 - \$12,745	\$7,540	55	2,409 (34%)
High-income	\$12,746+	\$39,312	75	1,306 (18%)

Source: <http://data.worldbank.org/about/country-and-lending-groups>

Proportion of Population (based on World Bank's Classification)



Nations of the World, Classified by GNI Per Capita (2011)



Questions

- Big question:
 - Why some countries are still poor, and how can poverty be overcome?
- More interesting questions:
 - Why some countries develop rapidly, whereas others seem not develop? What explains this wide diversity?
 - What are the lesson learned from these experiences?
- Keep in mind:
 - Development as a complex process that can best be understood by combining economic theory, empirical analysis, and consideration of the institutional context.
 - Economic development is first and foremost as a process involving people.

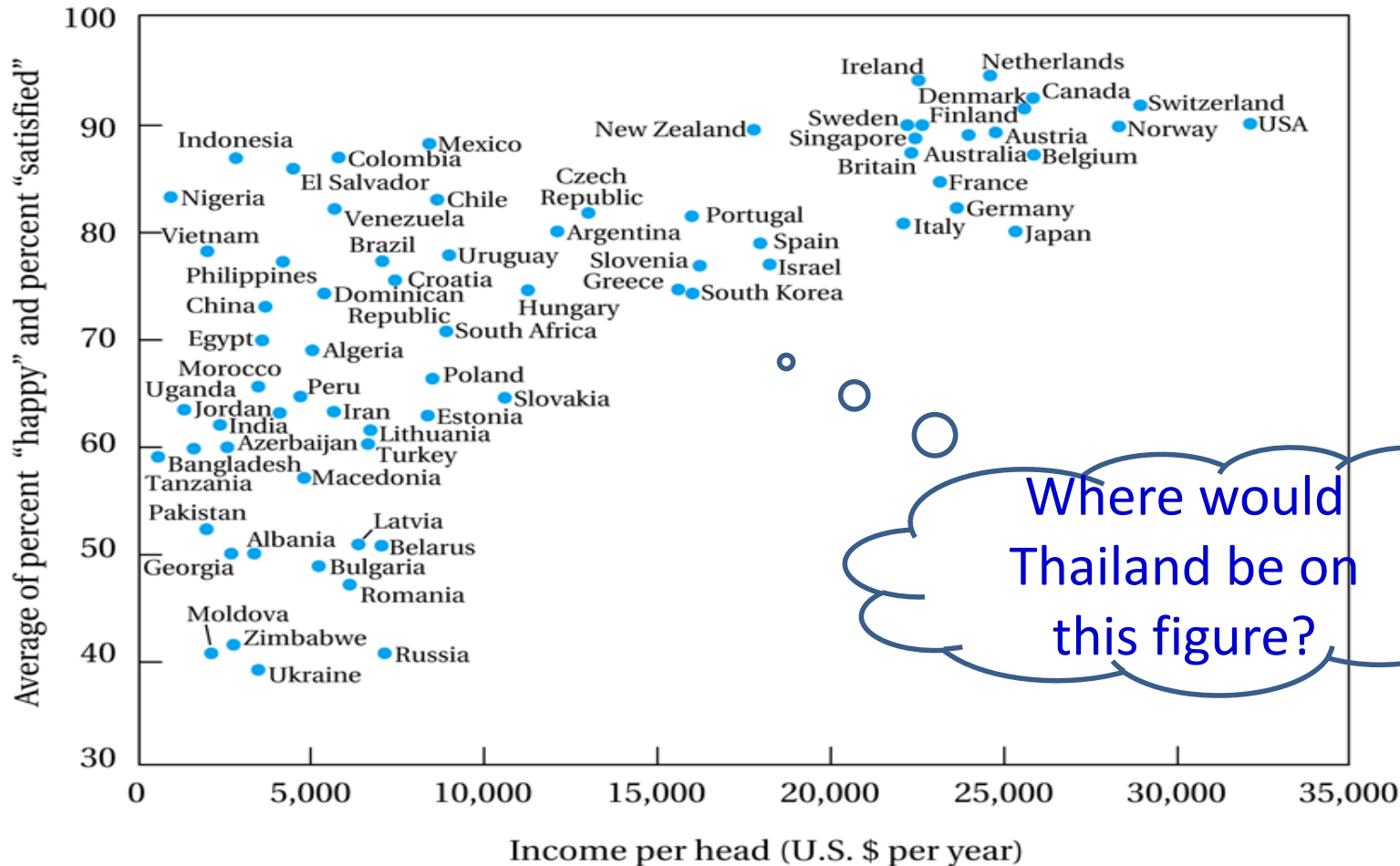
Questions Addressed in This Course

- What are the main factors that contribute to different rates of economic growth?
- What is the relationship between economic growth and inequality?
- How transformation in human resources contributes to the development process?
- How capital is mobilized and allocated for development purposes?
- What are strategies to promote economic growth?
- How do external factors, such as foreign aid and trade, affect growth?

Growth & Development

- Is economic development the same as economic growth?
 - **Economic Growth** = a rise in national income or per capita income
 - **Economic development** = Economic Growth + improvement in living standards (e.g. health, education, and other aspects of human welfare) of the population
- Economic growth is a **necessary but not sufficient** condition for improving mass living standards
- Amartya Sen's "**Capability**" approach:
 - The goal of development is to expand the *capabilities* of people to **live the lives they choose to lead**.

Income and Happiness: Comparing Countries



Source: From *Happiness: Lessons from a New Science* by Richard Layard, copyright © 2005 by Richard Layard. Used by permission of The Penguin Press, a division of Penguin Group (USA) Inc. and United Agents Ltd. (www.unitedagents.co.uk) on behalf of the author.

Source: Todaro (2010)

The Study of Development Economics

- Greater scope than traditional neoclassical economics and political economy.
 - Interdependent relationships between **economic** and **non-economic factors**
 - Success or failure of development policy depends also on **institutional** and **structural variables**.
- Examples:
 - Increase tax rate may not lower labor supply in developing countries, but may encourage growth in the informal sector.
 - Fixed exchange rates in some countries (so increasing money supply cannot make the exchange rate depreciate).
 - Other?

MEASURING ECONOMIC GROWTH AND DEVELOPMENT

Measuring Economic Growth

- **Gross Domestic Product (GDP)**
 - values all output produced within the borders of the country, including by foreigners but excludes value of production of citizens living abroad
- **Gross National Product (GNP)**
 - values of all final goods and services produced by citizens of the country
 - often called Gross National Income (GNI)
- **GDP per capita** = $\text{GDP} / \text{total population}$
- Economic growth → changes in per capita income over time
- **Real GDP** = GDP adjusted for domestic price inflation

Measuring GDP: What is Left Out?

- Underestimation of total values of output because **some goods and services are not in the market**
 - Unpaid family labor services
 - Agricultural production
- Lack of accurate price information or representative market price at the national level
- Doesn't account for “**public bads**” such as crime, pollution, congestion, etc.

Exchange Rate problems

- GDP does not account for **non-traded goods and services** such as haircut, maid services, etc.
 - Use **Purchasing Power Parity (PPP)** exchange rate
- The *International Comparison Program* (ICP) derives a set of **international prices** in a common currency.
- PPP allows for a more valid comparisons of income levels across economies.

Examples:

- Ratio of PPP calculation to market exchange rate calculation = 0.7 in Norway, 2.8 in India, and 3.3 in Gambia.
- Using market exchange rate, per capita income in the US is ~40 times those in India in 2009, but when using PPP calculation, the gap is ~14 times.

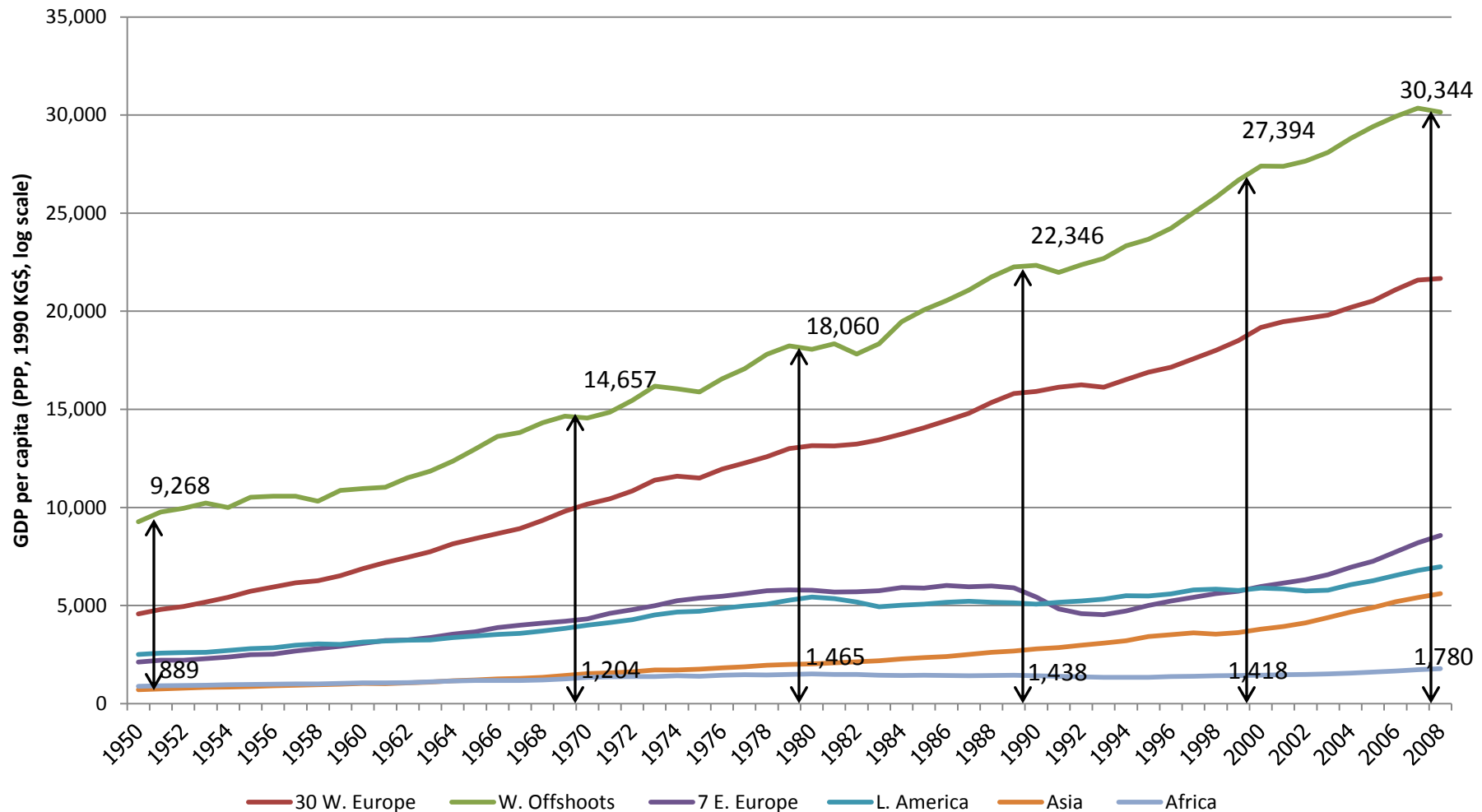
Example: Purchasing Power Parity (PPP)

	US			INDIA		
	Q	P (US\$)	P x Q (billion \$)	Q	P (Rupees)	P x Q (billion Rs)
Steel (million tons)	200	1,000	200	25	50,000	1,250
Retail sales personnel (millions)	2	20,000	40	4	60,000	240
Total GDP (billions)			240			1,490

Market exchange rate based on steel prices = Rs 50,000/ US\$ 1,000 = **Rs 50: US\$1**

- India's GDP in US\$ based on official exchange rate = $1490/50 = \text{US\$ } 29.8$ billion
- India's GDP in US\$ using PPP:
 - Steel: 25 million tons x 1,000 US\$ = \$25 billion
 - Retail sales personnel: 4 million people x 20,000 US\$ = \$80 billion
 - GDP = \$25 billion + \$80 billion = \$105 billion
- **Ratio of PPP to official exchange rate = \$105 bn/\$29.8 bn = 3.5**

Economic Growth Around the World



Source: http://www.ggdc.net/maddison/historical_statistics/vertical-file_02-2010.xls

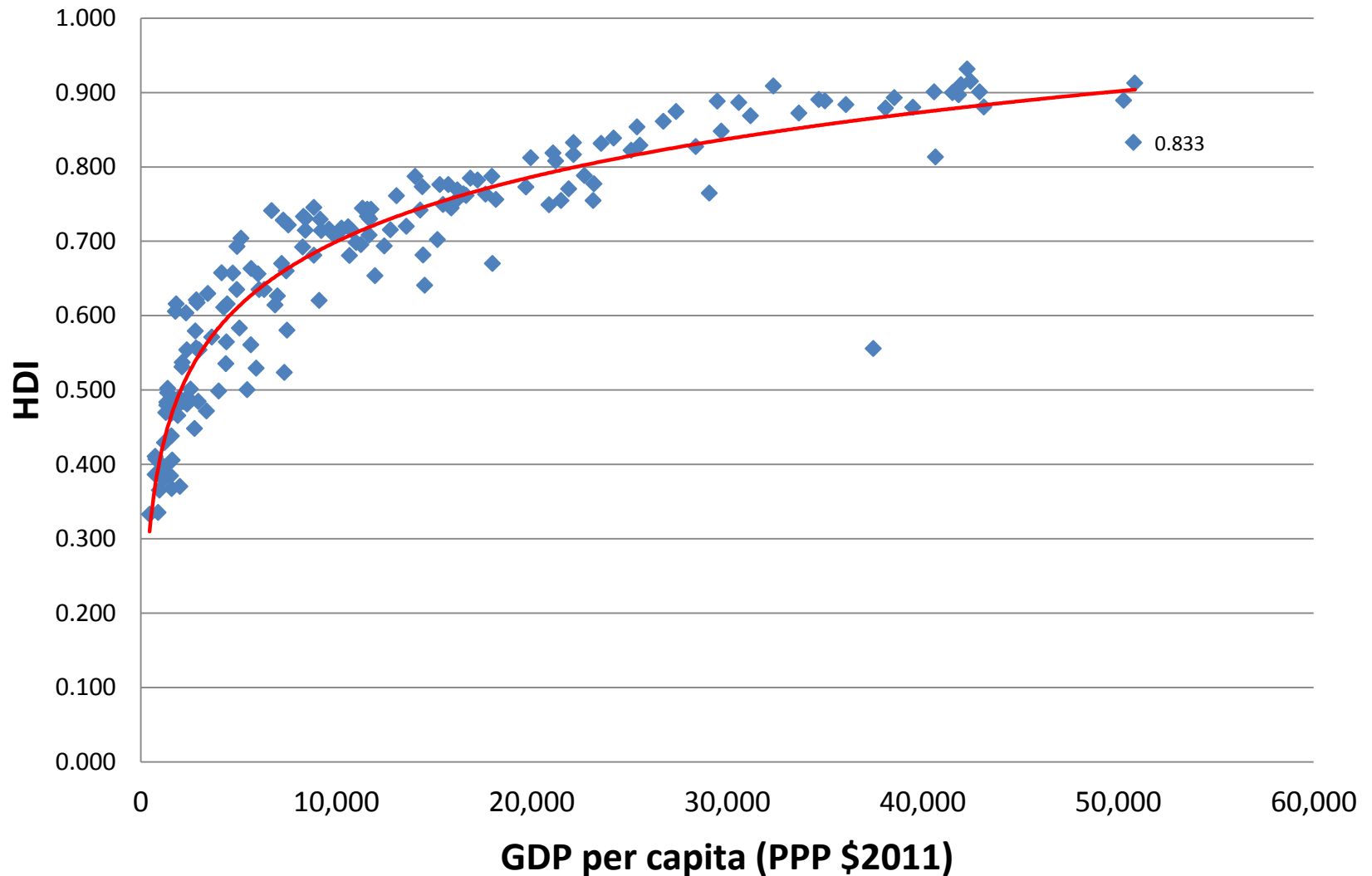
Economic Development

- Economic development: Economic growth + structural change with significant participation of people in producing wealth.
- **A. K. Sen**: *Economic development is about expanding **capabilities** of people their lives.* Income is one determinant of that capability. Other factors affecting capability are:
 1. State of health wellbeing
 2. Environmental adversity
 3. Social climate: crime, violence, security
 4. Relative deprivation & inequality
 - These sources of “**capability deprivation**” that prevent people the lives they desire.

Measuring Economic Development

- **Measuring Human Development (HDI):**
 - An index of health, education and income
 - Measured by weighted average of life expectancy, adult literacy & children school enrollment, and GNP per capita
 - Range from 0 to 1
 - HDI is generally correlated with income, but data show that improved health and education depend on factors other than income.

HDI and GDP per capita, 2012



Millennium Development Goals (MDGs)








Adopted by world nations in September 2000 that declared 8 goals:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop global partnership for development

Millennium Development Goals and Targets for 2015

Goals

Targets

 <p>1. Eradicate extreme poverty and hunger</p>	<ul style="list-style-type: none"> • Reduce by half the proportion of people living on less than \$1 a day • Reduce by half the proportion of people who suffer from hunger
 <p>2. Achieve universal primary education</p>	<ul style="list-style-type: none"> • Ensure that all boys and girls complete a full course of primary schooling
 <p>3. Promote gender equality and empower women</p>	<ul style="list-style-type: none"> • Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015
 <p>4. Reduce child mortality</p>	<ul style="list-style-type: none"> • Reduce by two-thirds the mortality rate among children under 5
 <p>5. Improve maternal health</p>	<ul style="list-style-type: none"> • Reduce by three-quarters the maternal mortality ratio
 <p>6. Combat HIV/AIDS, malaria, and other diseases</p>	<ul style="list-style-type: none"> • Halt and begin to reverse the spread of HIV/AIDS • Halt and begin to reverse the incidence of malaria and other major diseases
 <p>7. Ensure environmental sustainability</p>	<ul style="list-style-type: none"> • Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources • Reduce by half the proportion of people without sustainable access to safe drinking water • Achieve significant improvement in lives of at least 100 million slum dwellers by 2020

Millennium Development Goals and Targets for 2015 (cont'd)

Goals

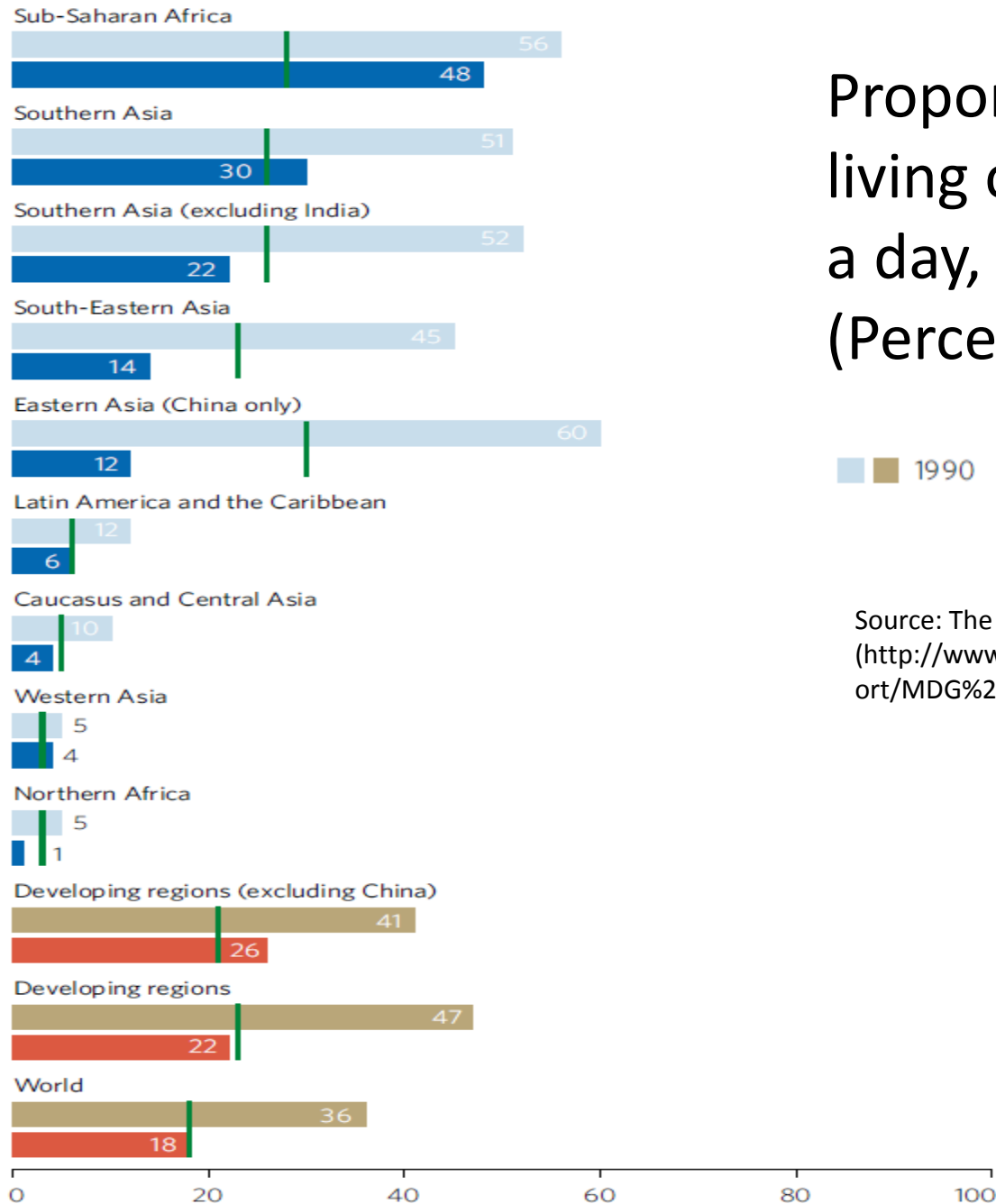
Targets



8. Develop a global partnership for development

- Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system; includes a commitment to good governance, development, and poverty reduction—both nationally and internationally
- Address the special needs of the least developed countries; includes tariff and quota free access for least developed countries' exports; enhanced program of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous official development assistance (ODA) for countries committed to poverty reduction
- Address the special needs of landlocked countries and small island developing states
- Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
- In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
- In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

Proportion of people living on less than \$1.25 a day, 1990 and 2010 (Percentage)



1990 2010 2015 target

Source: The Millennium Development Goals Report 2014
<http://www.un.org/millenniumgoals/2014%20MDG%20report/MDG%202014%20English%20web.pdf>

Multidimensional Poverty Index (MPI)

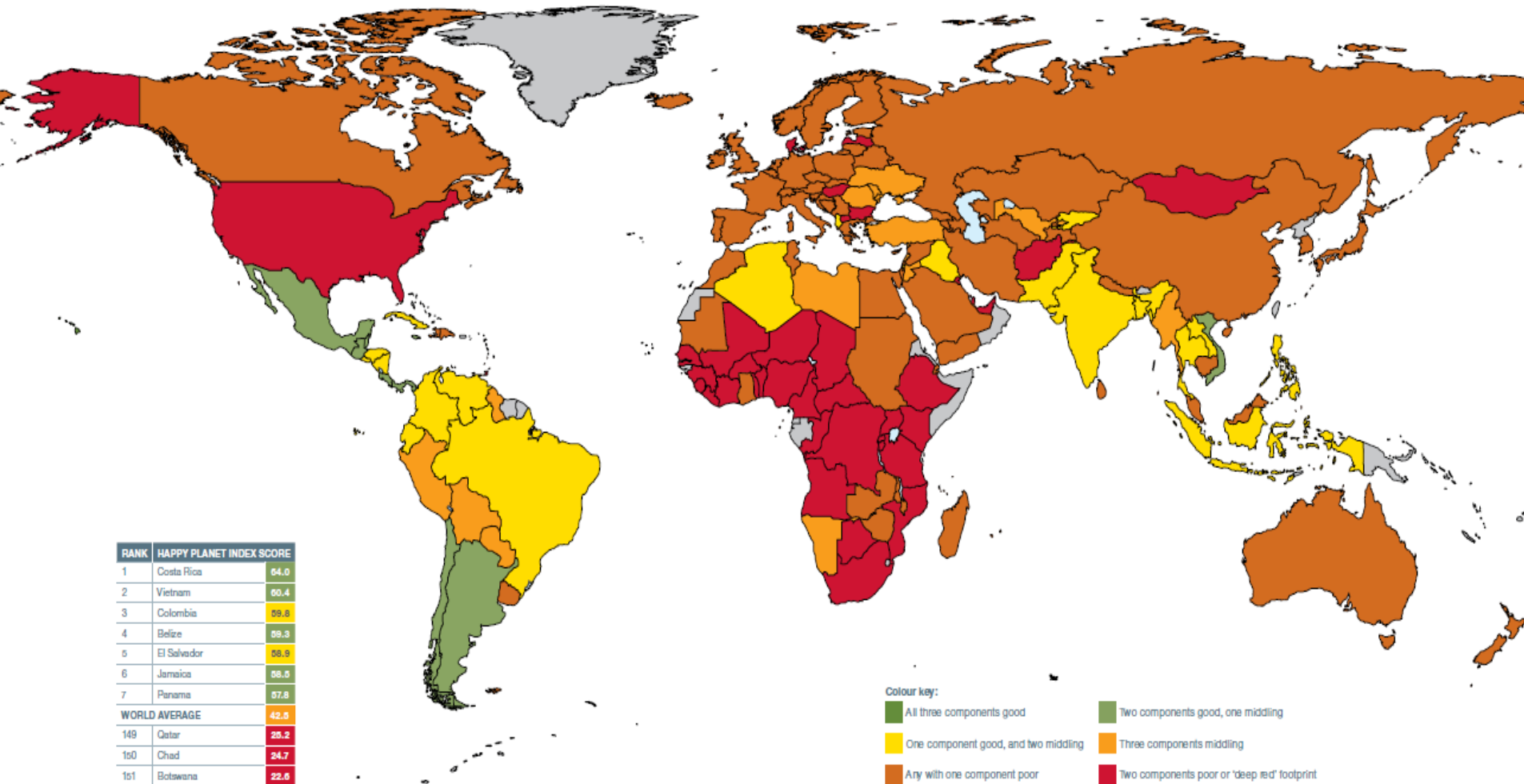
- **MPI** is the percentage of the population that is *multidimensionally poor* adjusted by the intensity of the deprivations.
 - It identifies **multiple deprivations** at the household and individual level in *health, education* and *standard of living*.
 - Constructed by using micro data from household surveys, and all the indicators needed to construct the measure must come from the same survey.
- More info:
 - <http://www.ophi.org.uk/background-to-the-mpi/>
 - <http://hdr.undp.org/en/content/multidimensional-poverty-index-mpi>

Is Economic Growth Desirable

- Does greater economic Growth lead to more happiness?
- There is *no correlation* between growth and happiness, or growth does not increase happiness.
- **Easterlin paradox**: in the US people did not seem to be happier despite the increase in per capita income over the past half century.
- For *poor countries*, growth may not increase happiness, but it **increases the range of choices and advances human capabilities**.

Happy Planet Index

Figure 5: A map of the world, colour-coded by HPI



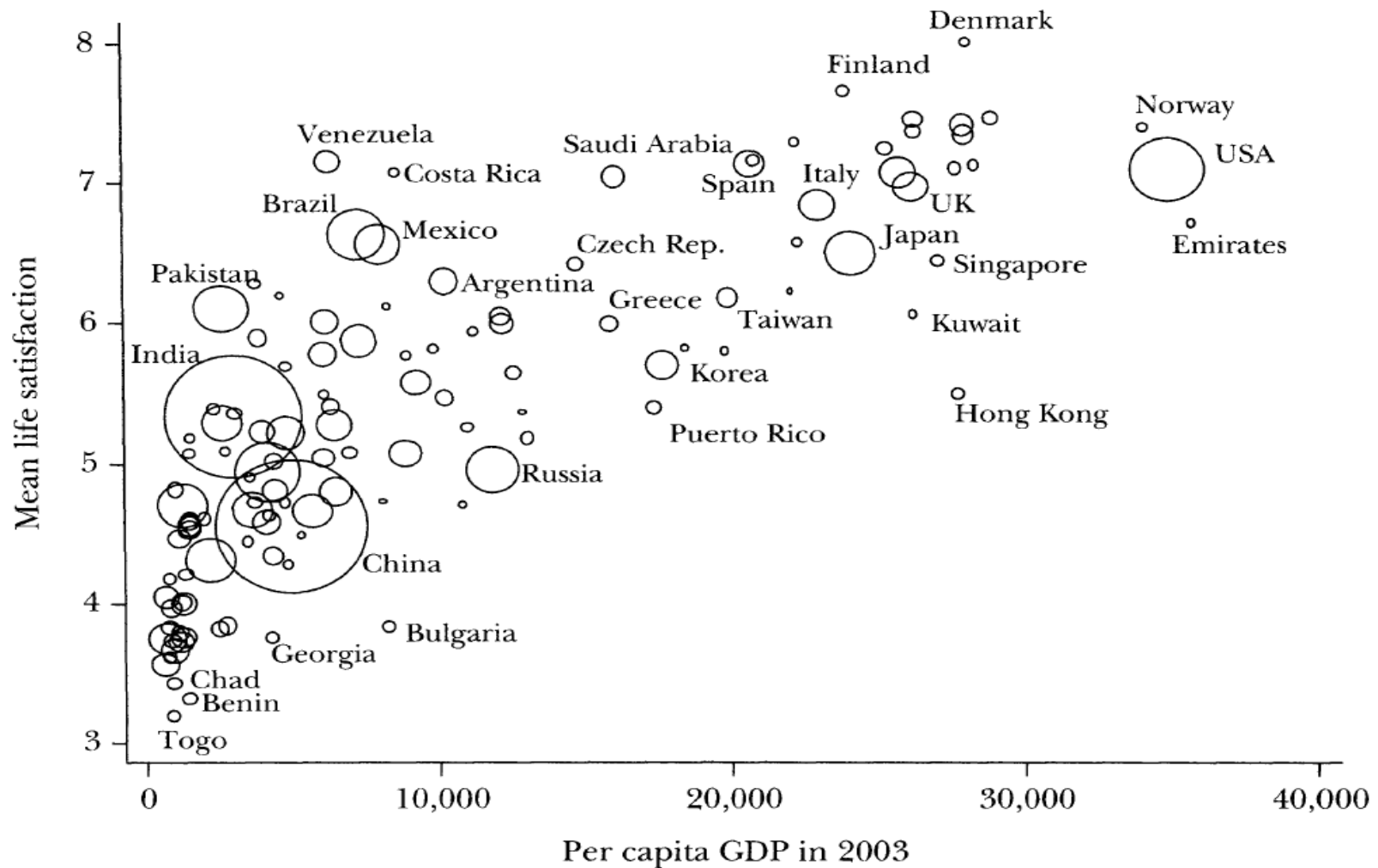
Source: <http://www.happyplanetindex.org/data/>

DEATON (2008). INCOME, HEALTH, AND WELL-BEING AROUND THE WORLD: EVIDENCE FROM THE GALLUP WORLD POLL. *JEP*, 22 (2), P.53-72.

The Gallup World Poll

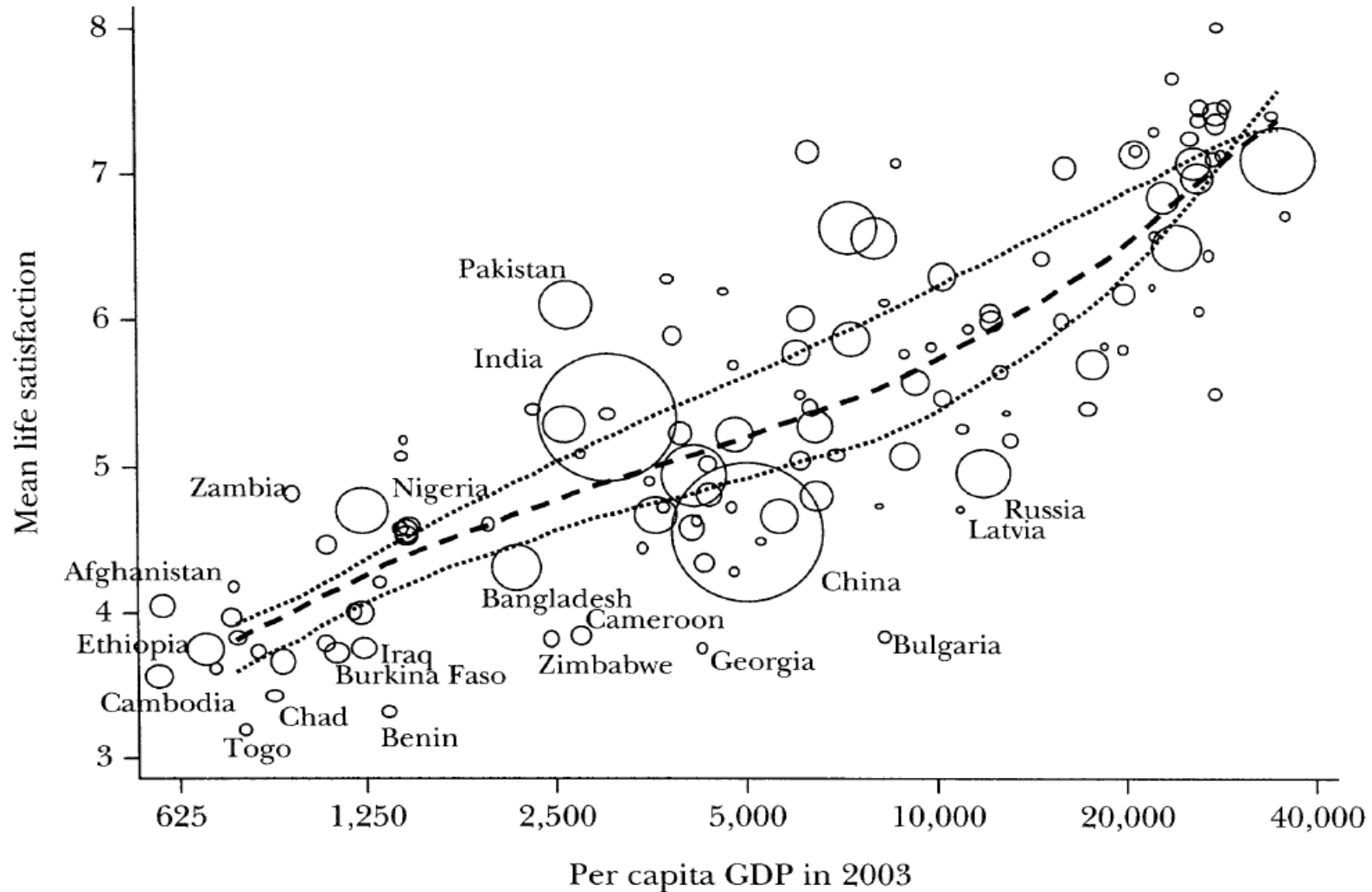
- Look at relationship between per capita GDP and two measures: life satisfaction and health satisfaction.
- Findings:
 - High-income countries have greater life satisfaction than low-income countries, but this income effect fades out when using $\log(\text{income})$.
 - For a given level of national income per capita, economic growth has negative effects on life satisfaction.
 - Neither life satisfaction nor health satisfaction strongly responds to objective measure of health (e.g. life expectancy). → Neither is a reliable indicator of population well-being.

Life Satisfaction and Per Capita GDP



Source: Deaton (2008), p. 56

Life Satisfaction and Log of Per Capita GDP



Source: Deaton (2008), p. 57

Health Satisfaction, Age, and Per Capita GDP

