COURSE OVERVIEW & INTRODUCTION TO ECONOMIC DEVELOPMENT

EE 462 Development Macroeconomics

Semester 1/2019

About the Instructor

- Name: Phatta Kirdruang
- Education:
  - B.A. (Economics), McGill University, Canada
  - M.A. (Economics), University of British Columbia, Canada
  - Ph.D. (Applied Economics), University of Minnesota, USA
- Fields of interest: Health economics, Development economics, Population studies
- Contact info: phatta@econ.tu.ac.th; Office: Rm 15 (60th anniversary annex), Faculty of Economics
- Office hours: 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 4^{th}-year students)?
  - Others?

Course Contents

- Economic Growth
  - Concepts & Pattern
  - Theories of Economic Growth
- Human Capital and Growth
- Inequality and Poverty
- Big Push and Middle-Income Trap

Before midterm

- Investment and Savings
- Financial Development and Inflation
- Foreign Debt and Financial Crisis
- Foreign Aid
- Trade and Development
- Managing Short-Run Crisis in an Open Economy

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.**
- Required journal articles – as indicated in the course outline.
  - Please check moodle regularly for updates (enrollment key: 2378) .
- Supplemental Textbooks:
  - Todaro, M., & Smith, S. (2011). *Economic Development. Eleventh Edition*. Prentice Hall.
  - Jones, C. I. (2002). *Introduction to Economic Growth*. Second Edition. W. W. Norton & Company.
  - de Janvry, A., & Sadoulet, E. (2016). *Development Economics: Theory and Practice*. Routledge.
  - Van den Berg, H. (2001). *Economic Growth and Development: An Analysis of Our Greatest Economic Achievements and Our Most Exciting Challenges*. Boston: McGraw-Hill.

Other Suggested Books (For ‘Bed-Time’ Reading)

1. Acemoglu, D. & Robinson J. A. (2012). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty.* Crown Business.
2. Banerjee, A. V., & Duflo, E. (2011). *Poor Economics: A Radical Rethinking of The Way to Fight Global Poverty*. Public Affairs.
3. Paul, C. (2007). *The Bottom Billion: Why the Poorest Countries Are Failing And What Can Be Done About It.* Oxford University Press.
4. Easterly, W. (2001). *The Elusive Quest for Growth: Economists' Adventures And Misadventures in The Tropics*. MIT press.
5. Sachs, J. (2006). *The End of Poverty: Economic Possibilities for Our lime*. Penguin.

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 (10%)
- Joint paper and presentation (25%)
- Midterm exam (30%) – October 2, 2019 (9-11 hrs)
- Final exam (35%) – December 12, 2015 (9-12 hrs)

Class Discussion

- Discuss assigned readings every Friday class.
- Students should read before class and are encouraged to participate in the discussion by contributing answers, comments and questions.
- Attendance will be taken on Friday. If you are absent from 4 or more Friday classes, marks will be deducted from your participation mark.

Joint Paper and Presentation

- Each group consists of 2 students.
- Each group will do a research on an assigned topic, and present it in class during the last 2 weeks of the semester.
- After receiving comments, each group will revise the paper and submit it 2 weeks after your presentation.
- Details about topics and format of the paper will be provided after add-drop periods.

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)
- 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.ggdc.net/pwt

INTRODUCTION TO ECONOMIC DEVELOPMENT

Some Terminology: Rich and Poor Countries

- “Older” classification
  - First World vs. Third World
  - North vs. South

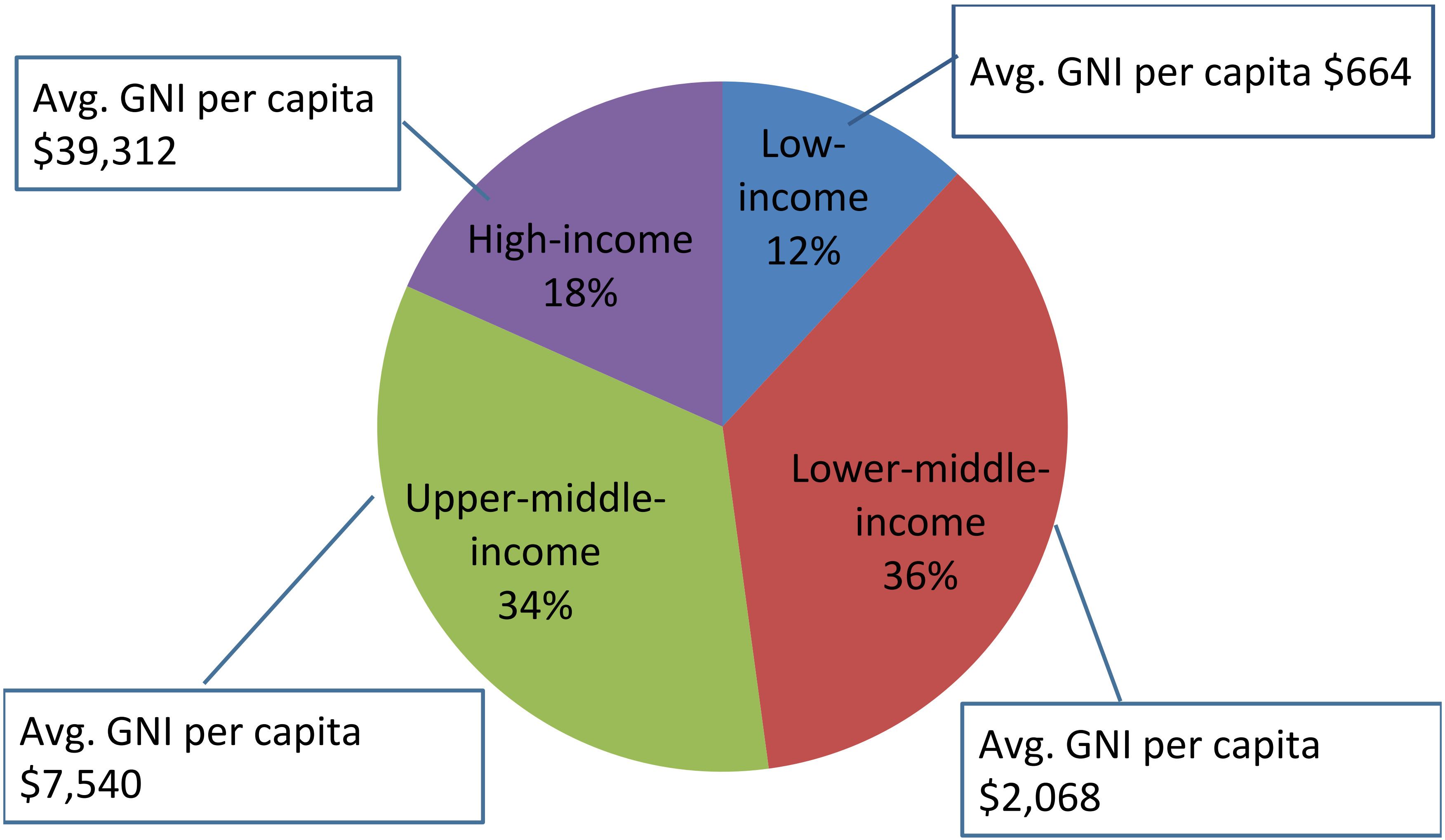
- More recent classification
  - Developed countries vs. Developing countries (or Less-developed countries (LDCs)
  - Least-developed countries
  - Emerging economics
  - Industrialized countries

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 (2015)

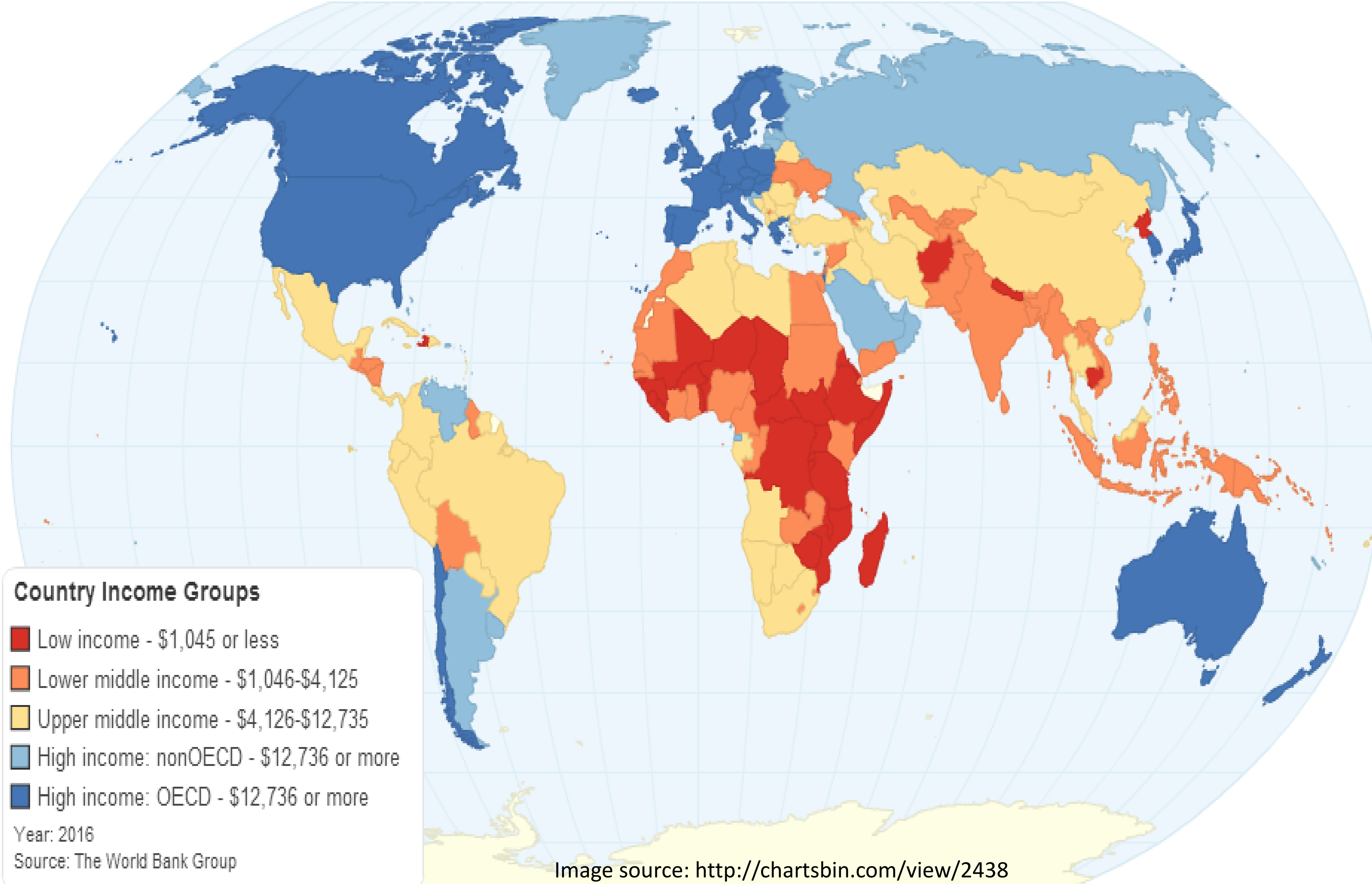


Image source: http://chartsbin.com/view/2438

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.

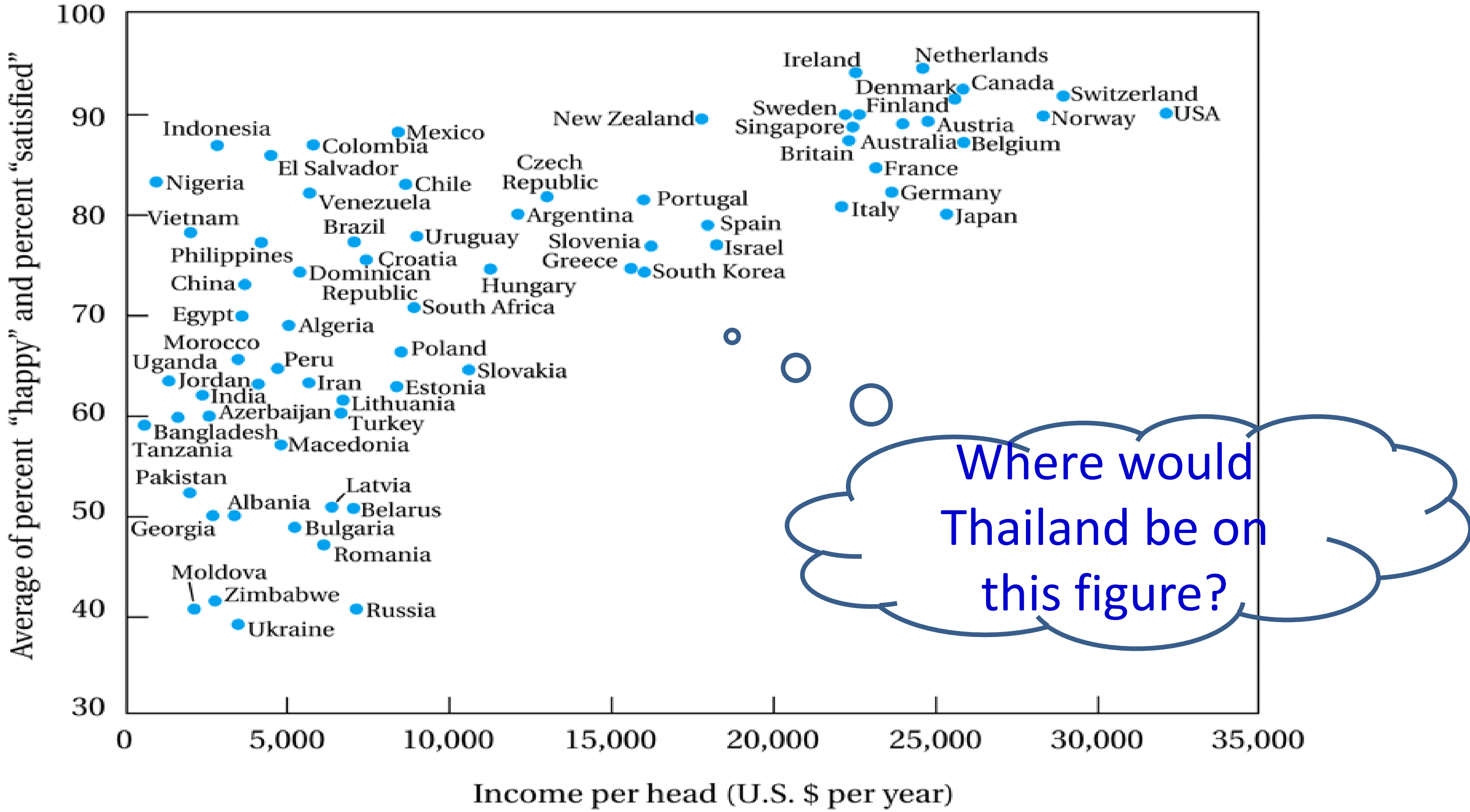
Questions Addressed in This Course

- What are the main factors that contribute to different rates of economic growth?
- What is the relationship between economic growth and inequality?
- How does transformation in human resources contribute 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= GDP/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.

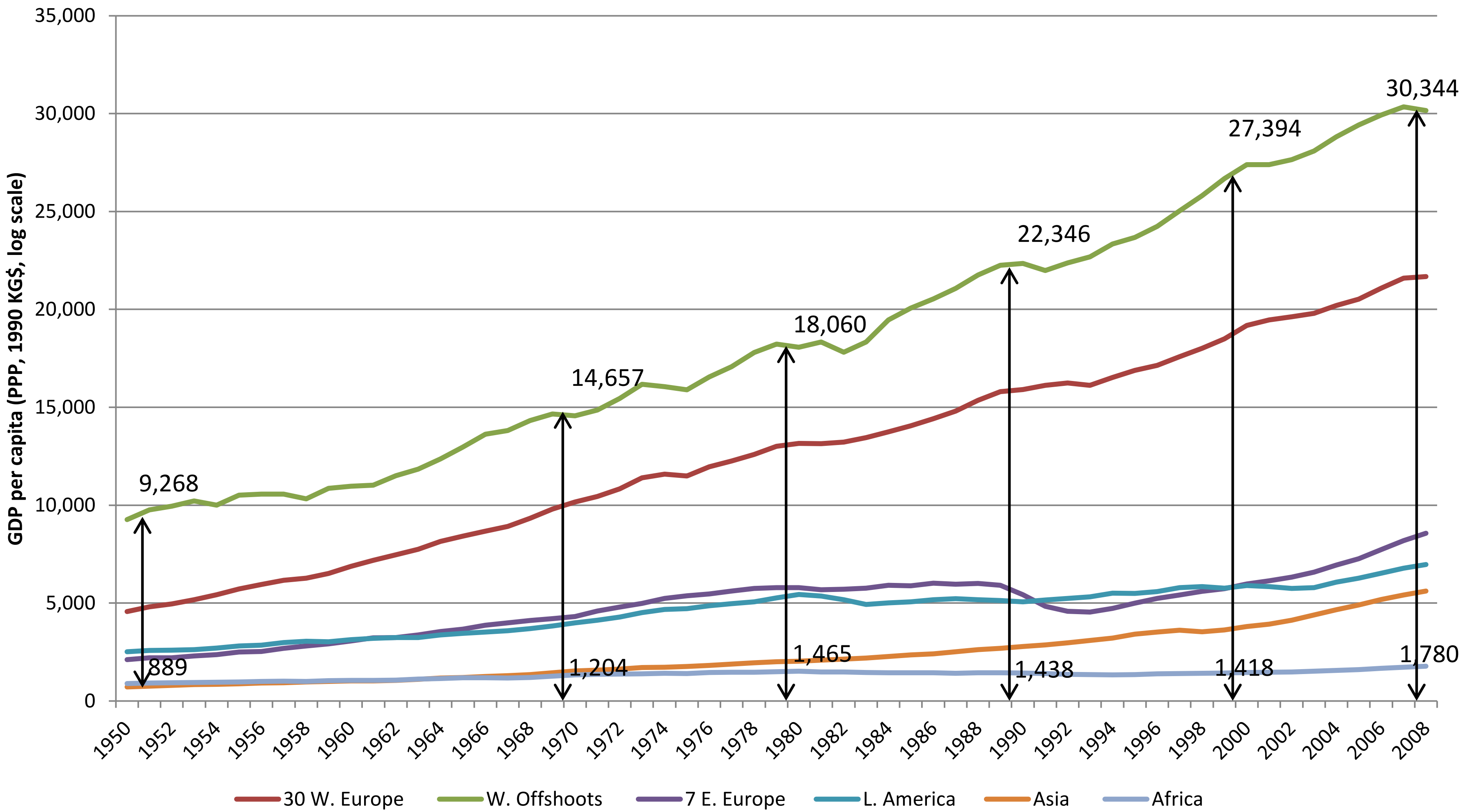
Example: Purchasing Power Parity (PPP)

	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 = 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.

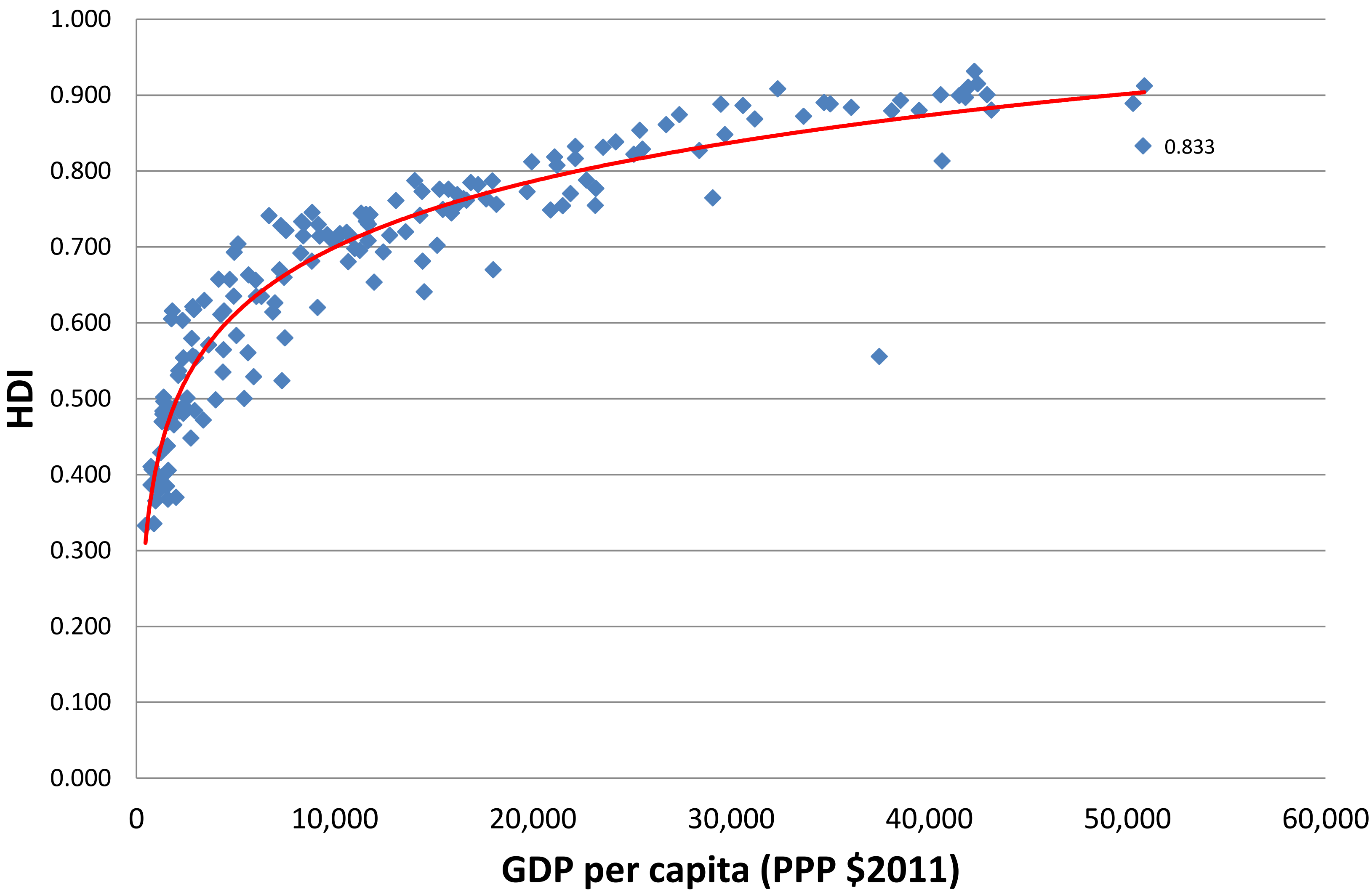
- A. K. Sen: *Economic development is about expanding capabilities of people their lives*. Income is one determinant of that capability. Other factors affecting capability are:
  1. State of health wellbeing
  2. Environmental adversity
  3. Social climate: crime, violence, security
  4. Relative deprivation & 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



Source: http://hdr.undp.org/en/data

Multidimentional 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

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

Sustainable Development Goals (SDGs)

Source: https://www.un.org/sustainabledevelopment/sustainable-development-goals/

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.