



# B.E. International Program

## Faculty of Economics, Thammasat University



### Course Outline

## EE462 Development Macroeconomics

Semester 1/2012 (August 14 – December 1, 2012)

<b>Number of credits:</b>	3 credits
<b>Lecture Time:</b>	Mondays, 09.30 – 12.30 hrs.
<b>Lecture Venue:</b>	Room 204, Faculty of Economics
<b>Instructor:</b>	Assoc. Prof. Chaiyuth Punyasavatsut Office: Room7, 60 <sup>th</sup> Anniversary building Office Hours: Monday 13.00-14.00 or by appointment E-mail: <a href="mailto:chaiyuth@econ.tu.ac.th">chaiyuth@econ.tu.ac.th</a> And Assoc. Prof. Patamawadee Pochanukul Office: Room 508 Office Hours: Monday 13.00-19.00 hrs. E-mail: <a href="mailto:pat@econ.tu.ac.th">pat@econ.tu.ac.th</a>

### Course Description

The analysis of development economics issues that are important and related to the macro economy of developing countries, such as concepts explaining economic growth, development policies of various countries, the analysis of monetary policies, exchange rates, balance of payments, flow of capital, financial crisis, international aids affecting economic growth, the effects of international trade and foreign direct investments on economic development, the relationship between economic growth and the level of poverty and income distribution, etc.

**Prerequisites:** EE312

## Grading:

The course grade will be based on the following, with weights in parentheses:

Midterm short essay (50%) by Dr. Chaiyuth Punyasavatsut

Final examination (50%) by Dr. Patamawadee Pochanukul

## Text and Readings:

The recommended texts for this class are Debraj Ray's *Development Economics* and Charles Jones's *Introduction to Economic Growth*. However, we will rely mostly on articles. Required readings are marked with a star (\*). Recommended readings are not starred. Some recommended readings are available on line. Copies of reading package will be offered in due times. Other books listed below are not required for class but will be really helpful to know the subject.

## Books:

Acemoglu, Daron. *Introduction to Modern Economic Growth*, Princeton University Press, 2008.

\*Agenor, Pierre-Richard and Peter J. Montiel. *Development Macroeconomics, Second edition*. Princeton University Press, 1999.

Aghion Phillippe and Peter Howitt. *The Economics of Growth*. The MIT Press, 2009.

Barro, Robert J. and Xavier Sala-i-Martin, *Economic Growth*, second edition. The MIT Press, 2004.

\*Jones, Charles I. *Introduction to Economic Growth*, second edition, W.W. Norton & Company, 2002.

Mankiw, N.G. *Intermediate Macroeconomics: Abridged*. Worth Palgrave Macmillan, 2010.

\*Ray, Debraj. *Development Economics*. Princeton University Press, 1998.

Stiglitz, Joseph, eds., *Frontiers of Development Economics: The Future in Perspective*, New York, Oxford University Press, 2001,

## Course Structure

### First-half content by Dr. Chaiyuth Punyasavatsut

This first-half of the course provides a comprehensive analysis of the process of economic growth and the source of differences in economic performance across nations. The main goal is to allow students to understand current topics in the subject and to analyze policy debates surrounding those topics.

Week 1: Overview and Questions of Economic Growth and Development

Week 2: Solow Growth and Neoclassical Growth Model

Week 3: Endogenous Growth Models

Week 4: Growth empiricism

Week 5: Growth Strategies: Industrialization Policy

Week 6: Roles of Health and Education in development

Week 7: Growth and Income inequality

## **Second half content by Dr. Patamawadee Pochanukul**

The second-half of the course focuses on development economics issues that are important and related to the macro economy of developing countries, the analysis of short-run macroeconomic policies such as stabilization policy, fiscal deficit, monetary policy, exchange rates, flow of capital, financial crisis, the effects of international trade and foreign direct investments on economic development, alternative models of growth and structural reform.

Week 8: Macroeconomic Relationships and Market Structure

Week 9: Macroeconomic Fluctuations

Week 10: Fiscal Deficits, Government Debt, and Public Solvency

Week 11: Stabilization, the Formal-Informal Sectors, Populism

Week 12: Financial Markets, Capital Mobility, Monetary Policy

Week 13: Exchange-Rate Regimes and Management, Currency Crises and International Monetary Cooperation

Week 14: Macroeconomic Policy Debates: Stabilization Policy and Structural Reforms

Week 15: Alternative Growth Models

## **First-Half Course Outline and Readings**

### **1. Economic Growth and Development: Overview and Questions**

We begin with a quick review of historical development of developing countries over the past decades. We pay attention to per capita income and income distribution, and some indicators of development. Then, we end with an overview of the structural characteristics of developing countries.

Reading

\* Ray, D. Chapter 2.

\* Acemoglu, Daron. Chapter 1.

\* Jones, Charles. Introduction Chapter.

Barro and Sala-i-Martin, Chapter 1.

\* Steven N. Durlauf, Paul A. Johnson and Jonathan R. W. Temple, “[Growth Econometrics](#),” *Handbook of Economic Growth* in Aghion P. and Durlauf S. (eds.) Volume 1 Chapter 8. pp555-677.

Pritchett, Lant, “[Divergence, Big Time](#),” *Journal of Economic Perspectives*, Summer 1997. p. 3-17.

Basu, Kaushik, “On the Goals of Development,” in G.M. Meier and J.E. Stiglitz, eds., *Frontiers of Development Economics*, New York, Oxford University Press, 2001, 61-86.

### **2. Solow Growth and Neoclassical Growth Models**

Among issues facing developing countries, the question of economic growth or how to sustain economic growth is quite compelling.

#### **2.1 Solow and Neoclassical growth Models**

We start with a quick look at the stylized facts of economic growth and the most basic model of growth, the Solow growth model. The purpose is both to prepare us for the analysis of more modern models of

economic growth. We extend the Solow model to the Neoclassical growth model where we model consumer behavior and endogenize savings.

Reading

Acemoglu. Ch. 2, 3, 8

\*Jones, C., chapters. 2, 3.

Barro, R. And Sala-i-Martin, Chapters 1 - 2

### 3. Endogenous Growth Models

The modern economic growth or endogenous growth theories provide different hypotheses of the sources of growth, such as the role of innovation or endogenous technical change, ideas, human capital, and openness to trade. These models are based on forward looking behavior. We also discuss some mathematical tools to understand the mechanics of the model.

Reading

Acemoglu, Daron. Chapter 11, 12.

\* Jones, C., chaps. 4, 5, and 6.

Lucas, Robert E. Jr., “ On the Mechanics of Economic Development,” *Journal of Monetary Economics*, 1988, 22, 3-42.

Romer, P. “Endogenous Technical Change,” *Journal of Political Economy*, 1990, 98, 71-102.

### 4. Growth Empiricism

We look at empirical evidences which provide some validations of various models we discussed earlier. We also try to criticize empirical findings about fundamental causes of economic growth and economic development

#### 4.1 Growth Accounting and Source of Productivity Growth

Bosworth, Barry and Susan M. Collins (2003). The Empirics of Growth: An Update, Brooking papers on economic activity vol. 34.

Barro, R. And Sala-i-Martin, Chapters 10

#### 4.2 Evidences on from cross-countries regression

Reading

\* Ray, D. Chapter 3-4.

\*Jones, C. chapter 3

Ricardo Hausmann, Dani Rodrik, and Andres Velasco, “[Growth Diagnostics](#),” March 2005

\*Mankiw, N. Gregory, David Romer, David N. Weil, “[A Contribution to the Empirics of Economic Growth](#),” *The Quarterly Journal of Economics*, vol. 107, no. 2. (May, 1992), pp. 407-437. (Also NBER paper: <http://www.nber.org/papers/w3541.pdf>)

Barro, R. And Sala-i-Martin, Chapters 12

## 5. Growth Strategies (I): Industrialization Policy

Models of big push, development traps; externalities, linkages

Reading

\* Ray, D. Chapter 5.

\* Hoff, Karla and Joseph Stiglitz, “[Modern Economic Theory and Development](#),” in G.M. Meier and J.E. Stiglitz, eds., [Frontiers of Development Economics](#), New York, Oxford University Press, 2001, 389-459.

\* Rodrik, Dani, “[Getting Interventions Right: How South Korea and Taiwan Grew Rich](#),” [Economic Policy](#) 20, 1995, 53-107. (draft at <http://www.nber.org/papers/w4964.pdf>)

\*Murphy, Kevin M, Andrei Shleifer, and Robert W. Vishny, “[Industrialization and the Big Push](#),” [Journal of Political Economy](#), October 1989, 1003-1026.

Lucas, R.E . “The Industrial Revolution: Past and Future,” in [Lectures on Economic Growth](#), Harvard University Press, 2002.

\* Dani Rodrik, “[Growth Strategies](#)” October 2004.

## 6. Human Capital: Health and Education

Improving educational outcomes and health is at the heart of many developing strategies. We discuss what we know about policies to improve school outcomes and reduce health problems.

Reading

\*Hanushek, Eric and Ludger Woessman. “The Role of Education Quality for Economic Growth,” NBER working paper no. 4122, 2007. (download at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=960379](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=960379))

\* Psacharopoulos, George, “Economic Impact of Education,” in G. M. Meier and J. E. Rauch, [Leading Issues in Economic Development](#). New York: Oxford University Press, pp.223-227.

\* Rosenzweig, Mark, “[Why Are There Returns to Schooling?](#)” [American Economic Review](#), Vol. 85, May 1995, 153-158.

Foster, Andrew and Mark Rosenzweig, “[Technical Change and Human Capital Returns and Investments: Evidence from the Green Revolution](#),” [American Economic Review](#), Vol. 86, September 1996, 931-953.

Hanushek, Eric “Interpreting Recent Research on Schooling in Developing Countries,” in G. M. Meier and J. E. Rauch, [Leading Issues in Economic Development](#). New York: Oxford University Press, pp. 229-233.

Strauss, John and Duncan Thomas, “[Health, Nutrition and Economic Development](#),” [Journal of Economic Literature](#), Vol. 36, June 1998, 766-817.

Edward Miguel and Michael Kremer, “[Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities](#),” [Econometrica](#) 72(1), January 2004, pp. 159-217.

Rosenzweig, Mark, “[Population Growth and Human Capital Investments: Theory and Evidence](#),” [Journal of Political Economy](#), Vol. 98, 1990, pp. S38-S70.

## 7. Growth and Income Inequality

Concepts and Measurement of inequality; Impact of growths on inequality; population and growth

Reading

\* Ray, D. Chapter 6-7, 9.

Quibria, M.G., Growth and Poverty: Lessons from the East Asian Miracle Revisited, ADB Institute Research Paper No. 33, February, 2002.

### **Mid-term short Essay**

Read one of listed articles or bring the one of your interest (with my permission), and write a critique of it in light of what you have learned in this course and your knowledge. The essay should not exceed 10 double-spaced pages, with Times New Roman Font 12. Write a brief summary of the article and provide a great length of an analytical critique in light of theory and evidence. Essay submitted behind the dateline is subject to a penalty, 10 scores a day from total of 50.

### **Second-Half Course Outline and Readings**

(Articles for reading will be suggested in class)

#### **8. Macroeconomic Relationships and Market Structure**

This chapter explores the structural features that distinguish most developing countries from the industrial-country model, emphasizing the need to take structural factors into account in macroeconomic analysis.

##### ***Reading***

\* Agenor and Montiel, Ch 1-3

#### **9. Macroeconomic Fluctuations**

This chapter explores a wide range of regularities in macroeconomic fluctuations in developing countries; relationship between economic fluctuations in developing countries and output of industrial countries and the world real interest rate; the role of supply-side shocks in driving business cycles in developing countries.

##### ***Reading***

\* Agenor and Montiel. Ch.4

Mankiw Ch.9-11

#### **10. Fiscal Deficits, Government Debt and Public Solvency**

The chapter examines the nature and implications of fiscal rigidities, inadequate tax base and administrative difficulties in tax collection and effect of fiscal deficits on a variety of macroeconomic variables, excessive debt both external and domestic.

##### ***Reading***

\* Agenor and Montiel. Ch.5

\* Mankiw Ch.16

## **11: Stabilization, the Formal-Informal Sectors, Populism**

The chapter discusses the role of labor markets in the context of short-run macroeconomic adjustment in developing countries by examining the role of labor market segmentation and sectoral wage rigidity.

### ***Reading***

\* Agenor and Montiel, Ch.9

## **12: Financial Markets, Capital Mobility, Monetary Policy**

The chapter analyses the tools of monetary policy and the monetary transmission mechanism in the context of a developing economy that is semi-open financially.

### ***Reading***

\* Agenor and Montiel, Ch.6

Mankiw Ch.12-14

## **13. Exchange-Rate Regimes and Management, Currency Crises and International Monetary Cooperation**

This chapter discusses international financial architecture, financial crises, and evolution of international monetary cooperation, G8 policy coordination and regional monetary unification

### ***Reading***

\* Agenor and Montiel, Ch.7-8

Mankiw Ch.12-14

\* Montiel, Peter J.. *International Macroeconomics*. Wiley-Blackwell, 2009, Ch.16-18

## **14. Macroeconomic Policy Debates: Stabilization Policy and Structural Reforms**

This chapter discusses the debates on policy making in an uncertain world, why and how structural reforms may be needed regarding trade, wage, financial, and exchange market

### ***Reading***

\* Mankiw Ch.15

\* Agenor and Montiel, Ch.18, 20

Dullien, Sebastian; Hansjorg Herr; Christian Kellermann. *Decent Capitalism*. Pluto Press, 2011. Ch.6-9

## **15. Alternative Growth Models**

Issues in alternative development path will be discussed such as “middle income trap” and the ideas of “pro-poor growth” and “green growth”

### ***Reading***

Agenor and Montiel, Ch.17

Mankiw Ch.7-8

Grimm, Michael; Stephan Klasen; and Andrew McKay . Determinants of pro-poor growth. Palgrave Macmillan, 2007.

Dullien, Sebastian; Hansjorg Herr; Christian Kellermann. *Decent Capitalism*. Pluto Press, 2011. Ch.6, 10.

### **Important Dates**

Class Begins	August 14, 2012
Adding and Dropping Course	August 14-28, 2012
Midterm Exam Period	October 1-6, 2012 (No Lectures)
Course Withdrawal with "W"	October 17-22, 2012
Class Ends	December 1, 2012
<b>Final Exam</b>	<b>Thursday, December 6, 2012; 09.00-12.00</b>

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