



**DEPARTMENT OF ECONOMICS**

**ECON 303**

**ECONOMICS OF DEVELOPING COUNTRIES**

**2011**

# **MAIN COURSE HANDOUT**

***Course Lecturer:***

Stephen Knowles Room: 7.07 Commerce Building

Phone: 479-8350

email: [stephen.knowles@otago.ac.nz](mailto:stephen.knowles@otago.ac.nz)

Office hours: Mon 1-2, Wed 1-2, Thurs 1-2

***Lectures:*** Tuesday 10:00-10:50  
and Wednesday 4:00-4:50

***Tutorial:*** Tuesday 12:00-12:50  
or Tuesday 1:00-1:50  
or Thursday 10:00-10:50  
or Thursday 12:00-12:50

Note: tutorials begin in the second week of the semester and will be held most weeks.

Note: Some tutorials will be taken by Stephen Knowles and some by Corey Alan.

Pre-requisites: ECON201 (or ECON271) and ECON202

**Note:** While every effort is made to ensure that the information contained in this document is accurate, it is subject to change. Changes will be notified in class and via Blackboard. Students are encouraged to check Blackboard regularly. It is the student's responsibility to be informed.

### *General*

In New Zealand income per capita is \$US28,810, virtually everyone can read and write and, on average, people can expect to live for 80 years. In India income per capita is \$US1,220, more than a third of the population cannot read and write and average life expectancy is 64 years. Most of the countries that make up the world economy have more in common with India than with New Zealand. These countries (where more than two thirds of the world's population live) are known as the "Third World". Other names for this group of countries include "developing countries" and "less developed countries (LDCs)". This course is about these countries.

We will analyse why it is that most of the world's economies appear to be trapped at low standards of living for most of their citizens. We will also ask what policies, if any, are likely to encourage the economic development of these countries. The approach followed will be to relate the theoretical literature to the real world experience of developing countries. **Note that this is a course based around economic theory; only minimal use is made of case studies.**

### *Topics covered*

Note: this is a provisional topic list only and may be subject to change. More time will be spent on some topics than others.

- Introduction: course content and methodology
- Characteristics of developing countries
- Theories of economic development: a comparative historical analysis
- The Solow-Swan (neoclassical) growth model
- Contemporary models of economic growth and development
- Deep determinants of economic development: institutions, social capital and geography
- The distribution of income and poverty
- Population growth and economic development
- The economics of micro credit
- Education, gender issues and child labour

### ***Tutorial Streams***

There are four different tutorial streams, and the times of these are given on the front page of this handout. Tutorials start in the second week of the course. You can find out which stream you have been allocated to by looking on PIMS. Note that if you have not been streamed, this is probably because you enrolled late. Please see Stephen about this and he will allocate you to a tutorial stream. The same applies if you have been streamed to a tutorial and wish to change streams.

### ***Learning Outcomes***

In this course we will study different theories and models of the process of economic growth and development. We will compare the predictions of these theories and models to what we observe in the real world, with reference to cross-country data. Some time will also be spent discussing how to measure concepts like economic development, income inequality and poverty. It is your understanding of these theories, models and concepts, and your ability to apply these, that will be examinable in both the internal assessment essay and the final exam.

In addition to general mastery of the material, a number of specific learning outcomes follow from this.

- (1) Critical thinking (the ability to decide what the strengths and weaknesses of an argument or model are; and to decide if you agree with the argument and/or the predictions of the model). You will get practise at this in tutorials, and this will be assessed in the internal assessment essay and final exam.
- (2) The ability to reconcile competing arguments and to draw conclusions (an extension of critical thinking – if two models make different predictions, and/or you are faced with what appear to be contradictory arguments, can you decide which of the arguments are the most convincing and draw conclusions based on this). You will get practise at this in tutorials, and this will be assessed in the internal assessment essay and final exam.
- (3) Written communication (can you write a good academic essay, demonstrating the ability to think critically, to reconcile competing arguments and to draw conclusions based on sound argument). You will be given guidance on this in lectures and tutorials (and see the material at the end of this handout). This will be assessed in the internal assessment essay, and in the essay section of the final exam.

### ***Reading and Tutorials***

This course involves quite a bit of reading (see the reading list below). Some of the readings summarise the material covered in lectures, but others go beyond what will be discussed in lectures. You are expected to do this reading, much of which will be discussed in tutorials. Tutorials are an integral part of the course, and you should consider attendance at tutorials to be just as important as attendance at lectures. Some tutorial questions will review what was covered in lectures, but more commonly tutorial questions will, based on the set reading, extend what was covered in lectures. It is in tutorials that your understanding of the course material will be tested. Note that all of the learning outcomes mentioned above are developed in tutorials.

I cannot emphasise enough that lectures will only provide an introduction to each of the topics we study. By doing as much of the reading as possible, you will deepen your understanding of the material. If you want to learn as much as possible in this course, you will need to do the reading as well.

The internal assessment test and final exam will be set on the understanding that everyone has done the reading labelled as essential in the reading list. The final exam will contain a combination of short-answer and essay-style questions. More information on assessment is given elsewhere in this handout.

### ***Workload***

Note that this is an 18-point semester paper. Under the University's points conventions, a 18-point paper corresponds approximately to an average workload of 12 hours per week (including contact hours), or roughly 180 hours in total over a 15-week period (including the end-of-semester exam period).

### ***Textbook***

The textbook for the course is Todaro and Smith. Some of you will have purchased the 10<sup>th</sup> edition (2009) of this text earlier in the year; the University Bookshop now only stocks the 11<sup>th</sup> edition (2011). You may also be able to buy copies of the 9<sup>th</sup> edition (2006) second hand. All three editions are very similar, and it is fine to use any of the three. In the reading list below, page and chapter numbers are given for all three editions. The course will follow the text reasonably closely (for 8 of the 11 substantive topics in the course, the textbook is the

primary reading), so it is important to have access to a copy. If you do not wish to buy a copy then you will need to make frequent use of the copy on close reserve in the Central Library.

### ***Assessment***

Internal assessment essay	25%
Final exam	70%

The internal assessment essay is due in on Wednesday September 7 at 5 pm. Plussage does **not** apply. This means the essay is effectively **compulsory**.

### ***Internal assessment essay***

**Due date:** Wednesday September 7 at 5pm. Extensions will only be given in extreme cases. Essays handed in up till one week late will be accepted subject to a penalty (of one mark per working day), but essays later than that will not be marked.

**Place:** Place your answer in the mail box marked “303 essays” in the Economics Department (7th floor, Commerce Building).

**Length:** 1200-1500 words (excess length will be penalised).

**Question:** Write an answer to the following question.

- For any Latin American country of your choice, choose 3 of the models listed below and discuss the extent to which you think the models explain the economic growth and development experience of your chosen country? Give reasons for your answer.

Models to choose from:

- Rostow’s stages of development
- Dependency theory
- Lewis model
- Harrod-Doamr model

- Solow model
- Endogenous growth models
- O-Ring model
- The Big Push Model

The aim of this exercise is to develop skills in doing some independent research work and to present your arguments in a well-structured essay. It is important that your answer show evidence of having read widely. The reading list given in this handout for the relevant topics is a good place to start, but ideally you should try and read a little more widely. Essays that simply summarise one or two readings will not get a good mark. You must synthesise the ideas from a wide range of readings and try and inject some originality into your answer. This essay question is likely to be easier to answer if you attend tutorials. It is important to base your answer primarily on what you have read in books, journals or working papers, rather than from the subset of web sites that do not maintain high scholarly standards. (See page 7, and the the notes on essay writing at the end of this handout for more on this point.) Having said this, an excellent web site that you may find includes useful information on the country you wish to study is the *Encyclopaedia of Nations* ([www.nationsencyclopedia.com](http://www.nationsencyclopedia.com)). As well as containing information on the various economies, it contains a bibliography, which should provide you with other helpful readings.

Some notes on essay writing are included at the end of this handout. Please read these thoroughly before starting work on your essay. **Please pay particular attention to the comments on plagiarism.** Plagiarism is a serious offence and if you commit it, you will be awarded a mark of zero. Plagiarism is also discussed on the next page of this handout.

### ***Final exam***

The exam will be three hours long. The format of the exam will be as follows:

- Section A: 30 marks of compulsory questions (30 marks).
- Section B: Answer two 15-mark questions from three options (30 marks).
- Section C: Answer one 20-mark essay question from three options (20 marks).

This format is similar (but slightly different) to that from the last few years. Copies of old exams can be found on the library's web site (at <http://www.library.otago.ac.nz/exams/>).

### ***Special consideration***

If you consider your performance in the final exam to be seriously impaired, or if you are too ill to sit an examination, you can apply for Special Consideration. To do this you will need to obtain an application form from the University Information Centre or Student Health. Please note that applications for Special Consideration must be made within five calendar days from the date of the last examination for which the application applies and must be accompanied by supporting documentation, such as a medical certificate.

### ***Plagiarism/Dishonest practice***

**Students should ensure that all submitted work is their own.** Any student found responsible for dishonest practice (e.g. copying the work of others, use of unauthorized material in tests) in relation to any piece of work submitted for assessment shall be subjected to the University's Dishonest Practice regulations. This may result in various penalties, including forfeiture of marks for the piece of work submitted, a zero grade for the paper, or in extreme cases, exclusion from the University.

Plagiarism is a form of dishonest practice. Plagiarism is defined as the copying or paraphrasing another's work, whether intentionally or through failure to take proper care, and presenting it as one's own. In practice, this means plagiarism includes any attempt in any piece of submitted work to present as one's own work, the work of another (whether another student or published authority) <http://www.otago.ac.nz/administration/policies/otago003145.html> . Any student found responsible for plagiarism shall be subject to the University's Dishonest Practice Regulations as outlined above. <http://www.otago.ac.nz/study/plagiarism/> The University reserves the right to use plagiarism detection tools.

### ***Useful internet sites***

The web can be a very useful resource. It is often easier, for example, to download a journal article or working paper from the web, than it is to go to the library to read or photocopy a hard copy. Such material has been subject to peer review. Many well respected scholars also maintain web sites that contain lots of useful information. This material has probably not been peer reviewed, but scholars are not going to risk their academic reputation by putting material on the web that they know does not meet high scholarly standards. However, some other material on the web is simply people's opinions, rather than the result of careful

scholarly research. When reading material on the web (that hasn't been published in a book, journal or working paper series) you should ask yourself whether the writer is qualified to be writing such a piece.

If you ever want a quick summary on the economy of different countries, along with some basic data, check out the travel finder site (<https://www.cia.gov/library/publications/the-world-factbook/index.html>). The World Bank home page has some interesting information and can be found at (<http://www.worldbank.org>). As noted earlier in this handout, the Encyclopaedia of Nations site ([www.nationsencyclopedia.com](http://www.nationsencyclopedia.com)) may prove useful for your essay.

### ***Use of Blackboard in this course***

Copies of the overhead slides I use will be posted on blackboard before each lecture (I will endeavour to do this 24-hours prior to each lecture, but cannot promise to keep to this). After each lecture I will post an additional copy of the slides on blackboard, which will include any annotations I have made on the slides during lectures.

Please note that detailed lecture notes are not available for this course. This would simply act as a substitute for doing the reading from the reading list. I consider reading from a wide variety of sources to be an essential part of the training you gain from a university education.

### ***What to do if you miss a lecture or tutorials***

If you miss a lecture, you should download a copy of the annotated slides, which are posted on Blackboard after each lecture. Note however, that the overheads only provide an outline of what was covered in lectures. You should fill these out by doing the relevant reading. The reading list below offers some guidance on which of the readings follow the lectures the most closely, and therefore, which of the readings you should read first if you missed the lecture.

If you miss a tutorial, try to attend another tutorial group for that week. If that is not possible, have a go at doing the questions and come and discuss them with me. Note that model answers to tutorials are not available. One reason for this is that many of the tutorial questions are discussion-type questions with no one correct answer. Another reason is that providing model answers would create a disincentive to participate fully in tutorials.

### ***Reading***

As this is a third-year paper you will be expected to do a considerable amount of reading each week. The reading lists for the first 9 topics are given below. A brief summary of each reading is also given. Reading lists for the other topics will be distributed at a later date.

Readings that will be handed out in class are indicated with an “(H)”.

References indicated by “(R)” will be held on close reserve in the Central Library.

References indicated by “(EJ)” can be downloaded from the e-journal portal on the Central Library’s web site. Go to <http://rb6fc7tv6s.search.serialssolutions.com/> and enter the **journal** (not author or article) name (**which is given in the reference list at the end of the reading list**) in the search dialog box. A list of links the journal can be accessed from will then appear. You need to make sure you click on a link that gives you access to articles for the year you are looking for (some sites don’t give access for the most recent articles). Clicking on a link will take you to a journal website, which you will have to navigate your way around in order to find the volume of the journal you are looking for. (Alternatively, hard copies of the journal are available in the Central Library’s periodicals section.)

References indicated by “(W)” you should download from the web by entering the web address given for the reading in the reference list (which can be found at the end of the reading list).

References indicated by “(Ref)” are in the reference section of the Central Library (you should also be able to download these from the e-journals page on the Library’s web site).

Note full bibliographic details for each reference are included in the references list (which comes after the reading list).

For each topic the readings are listed in the order of importance. Essential readings are marked with an asterisk (\*). The test and final exam will be set on the understanding that everyone has done all of the essential reading. If you hope to do well in this course you should endeavour to do as much of the other reading as possible. Some of the readings are closely linked to the lectures (so if you understood the lecture you need only skim such

readings to make sure you understand the readings as well), while other readings go beyond what was covered in lectures.

In addition to the text, another book I highly recommend is Easterly (2001). This book discusses in an intuitive way many of the theories and models we will look at during the course. Easterly does an excellent job of discussing the pros and cons of these theories. As Easterly used to work for the World Bank, he is able to offer insights into how these ideas have affected thinking at the World Bank. A copy of this book is on close reserve in the Central Library. Although, with two exceptions, I have not labelled it an essential reading, I think you would find this an enjoyable book to read. Where relevant, chapters of this book are included in the reading list below.

Lectures will only provide an introduction to each of the topics we study. By doing as much of the reading as possible, you will deepen your understanding of the material. If you want to learn as much as possible in this course, you will endeavour to do as much of the reading as you can.

Note that there is more reading for some topics than others. As a rule, the more technical topics (such as topics four and five) do not involve as much reading. This may be a good opportunity to read ahead for the topics that follow.

### ***Lecture Outline And Reading List (for the first 9 topics)***

Some of these topics will be dealt with in a more technical manner than others. The section on the Solow model (topic four) is the most technical section of the course and involves quite a bit of algebra.

#### **Topic one: Introduction (July 12)**

*This handout\**

This contains important information on the course (for example, on assessment, reading, tutorials etc). It is vital that you read this.

*Hess and Ross (1997), appendix to ch.1(H)\**

This reading discusses regression analysis, which part of today's lecture focuses on. Question 4, tutorial 1 is based on this reading.

*Blair (2005), pp.44-46(H)\**

In this article the British Prime Minister discusses why the world should be concerned about growing poverty in Africa. Question 5, tutorial 1 is based on this reading.

*Easterly (2006), pp.96-105(EJ)*

This is a book review of Jeffrey Sachs book *The End of Poverty: Economic Possibilities of our Time*. Sachs argues that a big push is needed to end Third World poverty: Easterly disagrees. This debate will be referred back to throughout the course.

**Topic two: The characteristics of developing countries (July 13)**

*Todaro and Smith (2009) chapters 1\* and 2\*(R) [or the same chapters in the 2006 or 2011 editions]*

Today's lecture is based quite closely on this reading from the textbook. Several of next week's tutorial questions are also based on this reading (and note that some of the tutorial questions cannot be answered on the basis of what is discussed in lectures, you need to do this reading).

**Topic three: Theories of development: a historical comparative analysis (July 19 and 20)**

*Todaro and Smith (2009) chapter 3\* (R) [or the same chapter in the 2006 or 2011 editions]*

This is the reading that the lectures follow the most closely. However, the lectures also draw on some of the other readings as well. Several of the tutorial questions also draw on this reading.

*Rosenstein-Rodan (1943) pp.202-211(H)\**

This article covers material not discussed in lectures. You need to read this article to answer question 1 in tutorial 2.

*Todaro and Smith (2009 pp.546-554)(R)\*[or pp534-554 in the 2006 edition or 528-532].*

These few pages discuss the issue of whether markets are likely to work very well in developing countries.

*Thirlwall (2003) pp.284-6(R)*

This short reading discuss dependency theory.

*Easterly (1999) pp.423-438 (EJ) or Easterly (2001) chapter 2(R)*

Easterly (1999) is quite an interesting article, which discusses several of the theories covered in these lectures, and looks at the influence they have had on policy (particularly at the World Bank). Easterly (2001) is the subset of Easterly (1999) that focuses on the Harrod-Domar model.

**Topic four: The Solow model** (July 26 and 27)

*Todaro and Smith (2009) Appendix 3.2 (R) \* [or Appendix 3.1 in the 2006 edition or Appendix 3.2 in the 2011 edition]*

This appendix derives the Solow model of economic growth.

*Easterly (2001) chapter 3 (H)\**

This reading provides a very intuitive explanation of the Solow model. I strongly recommend that you read this. You may find it helpful to read chapter 2 of Easterly first, but this is not essential.

**Topic five: Contemporary models of economic growth and development: endogenous growth, the big-push, O-Ring and Hausmann-Rodrik models** (August 2, 3, 9 and 10)

*Todaro and Smith (2009) Chapter 4\* plus Appendix 3.3(R)\* [or Chapter 4 in the 2006 edition or Chapter 4 and Appendix 3.3 in the 2011 edition]*

This reading covers the endogenous growth model, the big-push model and the O-Ring model.

*Easterly (2001) 155-164 (R)\**

This reading provides an intuitive explanation of the O-Ring model of economic development.

**Topic six: A case study of East Asia** (August 16)

*Todaro and Smith (2009) pp.649- 656(R)\* [or pages pp.607-613 in the 2006 edition or pages 624-629 in the 2011 edition]*

This reading discusses the economic development experience of Taiwan.

*Bello and Rosenfeld (1992), Ch.2 (H)\**

This reading discusses the extent of government intervention in South Korea.

*Garces and Knowles (2001) (R)*

This reading discusses, among other things, the extent of government intervention in the East Asian economies.

***The lecture on August 17 will only be used if we get behind with the course material.***

**Topic seven: Deep determinants of economic development: institutions, social capital and geography (August 23 and 24)**

*Knack and Keefer (1997) pp.1251-1288(EJ)\**

This reading discusses why social capital (interpreted as trust and civic norms) may affect economic performance. It also looks at empirical evidence on the effect of trust and civic norms on economic performance. You need to do this reading to answer some of the questions for tutorial 5.

*The Economist (2002) "The road to hell is unpaved", pp.47-49(H)\**

This reading gives the account of an *Economist* journalist who accompanied a beer truck as it made deliveries in Cameroon. This article brings to life some of the real world obstacles to economic development in many countries. Question 6 in tutorial 5 is based on this reading.

*Acemoglu (2003) and Sachs (2003)(W)\**

These short articles from the June 2003 issue of *Finance and Development* offer different perspectives on whether institutions or geography are the most important fundamental determinant of economic development.

*Diamond (2005) (W)\**

This article by Jared Diamond is from the online version of National Geographic. The article discusses the ideas put forward in his book *Guns, Germs and Steel: a Short History of Everybody for the Last 13,000 years*. This reading forms the basis of Question 4 in Tutorial 5.

*The Economist (2004c) "Measure first, then cut", p.71(H)\**

This reading discusses some recent research on the effects of business regulation on economic development.

*Easterly (2001) Part III (chapters 8-14)(R)*

In this section of his book, Easterly discusses what he thinks are the real reasons why under-development persists. His key argument is that under-development is the result of poor incentives. Incentives can be distorted due to poor governance, corruption etc. This is obviously quite a long reading, but it is quite easy material to read.

**Topic eight: Income inequality and poverty** (September 6, 7, 13 and 14).

*Todaro and Smith (2009) chapter 5\*(R) [or the same chapter in the 2006 or 2011 editions]*

This is the reading that lectures will follow the most closely.

*The Economist (2000a) "Growth is good", p.96\*(H) and The Economist (2000b) p.4\*(H)*

In the first of these readings *The Economist* argues that growth is good for the poor, by referring to the work of Dollar and Kray. The second reading is a letter to the editor disputing this point.

*The Economist (2004a) "More or less equal?" pp.65-8\*(H) and The Economist (2004b) "Pessimistic on poverty" p.65\*(H)*

In the first of these readings *The Economist* presents some numbers on the extent of global inequality and argues that poverty is lower than has been previously thought. In the second reading, Martin Ravallion disputes this second point.

*The Economist (2010) "Economic focus: a wealth of data", p.59\*(H)*

This reading discusses a new poverty measure: the Multidimensional poverty index. This reading will be discussed in question 2 of tutorial 7..

*Ray (1998) ch.6 & pp.249-261(R)*

This reading gives a more in depth discussion of the measurement of inequality and poverty than that found in Todaro and Smith. If you miss the lectures, it would be a good idea to do this reading.

*Ray (1998) ch.7(R)*

This reading discusses the relationship between inequality and growth in more detail than Todaro and Smith.

**Topic nine: Population growth** (September 20 and 21)

*Todaro and Smith (2009) chapter 6\*(R) [or the same chapter in the 2006 or 2011 editions]*

This is the reading that lectures will follow the most closely.

*The Economist (2009) "Go forth and multiply less" pp29-31 (H)\**

This article discusses the reasons behind the fall in fertility in the developing world and what this means for economic development. This reading forms the basis for Question 5 in Tutorial 7.

*Thirlwall (2003) pp303-313(R)*

Provides a more in depth analysis of the pros and cons of population growth than that found in Todaro and Smith.

*Dasgupta (1995) pp1879-1902(Ref)*

This review article provides a good review of a lot of the issues explored in lectures.

**Remaining topics**

A reading list for the remaining topics will be distributed at a later date.

**References**

Acemoglu, D. (2003) "Root causes: a historical approach to assessing the role of institutions in economic development, *Finance and Development*, June 2003, pp.27-30. Available on the internet (at <http://www.imf.org/external/pubs/ft/fandd/2003/06/index.htm>).

Bello, W. and S. Rosenfeld (1992) *Dragons in Distress: Asia's Miracle Economies in Crisis*, Penguin, London.

Blair, T. (2005) "A year of challenges", *The Economist*, January 1 2005, pp44-46.

Dasgupta P. (1995) "The population problem: theory and evidence", *Journal of Economic Literature*, vol.33, pp.1879-1902.

Diamond, J. (2005) "The shape of Africa", available at the National Geographic web site (at [http://www7.nationalgeographic.com/ngm/0509/resources\\_geo2.html](http://www7.nationalgeographic.com/ngm/0509/resources_geo2.html)).

Easterly, W. (1999) "The ghost of the financing gap: testing the growth model used in the international financial institutions", *Journal of Development Economics*, vol.60, pp.423-438.

Easterly, W. (2001) *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, MIT Press, Cambridge, Massachusetts.

Easterly, W. (2006) "The big push déjà vu: a review of Jeffrey Sachs: The End of Poverty: Economic Possibilities for our Time", *Journal of Economic Literature*, vol.44, pp.96-105.

Garces, A. and S. Knowles (2001) "Government Intervention and Economic Growth in East Asia" in R. Starrs (editor) *Asian Nationalism in an Age of Globalization*, Curzon Press, Surrey.

Hess, P. and C. Ross (1997) *Economic Development: Theories, Evidence and Policies*, Dryden, Fort Worth, appendix to chapter 1.

Knack, P. and P. Keefer (1997) "Does social capital have an economic payoff? a cross-country investigation", *Quarterly Journal of Economics*, vol.112, pp.1251-1288.

Ray, D. (1998) *Development Economics*, Princeton University Press, Princeton.

Rosenstein-Rodan, P.N. (1943) "Problems of industrialisation of Eastern and South-Eastern Europe", *Economic Journal*, vol.53, pp.202-211.

Sachs, J.D. (2003) "Institutions matter, but not for everything: the role of geography and resource endowments in development shouldn't be underestimated", *Finance and Development*, June 2003, pp.38-41. Available on the internet (at <http://www.imf.org/external/pubs/ft/fandd/2003/06/index.htm>).

*The Economist* (2000a) "Growth is good", May 27, 2000, p.96.

*The Economist* (2000b) "Letters: growth and the poor", June 10, 2000, p.4.

*The Economist* (2002) "The road to hell is unpaved", December 21, 2002, pp.47-49.

*The Economist* (2004a) "Special report on Global economic inequality: More or less equal?", March 13, 2004, pp.65-8.

*The Economist* (2004b) "Economic focus: Pessimistic on poverty", April 10, 2004, p.65.

*The Economist* (2004c) "Measure first, then cut", September 11, 2004, p.71.

*The Economist* (2009) "Go forth and multiply a lot less", October 31, 2009, pp.29-31.

*The Economist* (2010) “Economic focus: a wealth of data”, July 31, 2010, p.59.

Thirlwall, A.P. (2003) *Growth and Development* (seventh edition), Palgrave MacMillan, Houndmills, Basingstoke, Hampshire, USA.

Todaro, M. P. and S.C. Smith (2006) *Economic Development* (ninth edition), Pearson Addison Wesley, Essex, England.

Todaro, M. P. and S.C. Smith (2009) *Economic Development* (tenth edition), Pearson Addison Wesley, Essex, England.

Todaro, M. P. and S.C. Smith (2011) *Economic Development* (eleventh edition), Pearson Addison Wesley, Essex, England.

### ***Tutorials***

If you hope to pass this course it is vital that you attend tutorials as well as lectures. Tutorials will often be based on the reading material, rather than lectures. It is, therefore, possible that there will be questions in the final exam that test material covered in tutorials, but not covered in lectures. For each tutorial you will be given a set of questions to work on **before** the tutorial. You should come to the tutorial **prepared** to discuss your answers to the questions.

Note, tutorials will not be held every week. However, they are held most weeks (there are a total of 9 tutorials during the course).

Some tutorials will be taken by Stephen and others by Corey Allan. Corey is a Masters student in the Department. Corey will **not** have office hours. If you have any questions about the tutorial material (outside of the tutorial time itself) please see Stephen.

## ***Tutorial questions***

### **Tutorial 1** (week beginning July 18)

Questions 1, 2 and 3 are based on Todaro and Smith (2006 or 2009 or 2011) chapters one and two. Question 4 is based on Hess and Ross (1997). Question 5 is based on Blair (2005).

1. What is the difference between GDP and GNP (sometimes referred to as GNI)? Which do you think is the most useful measure of per capita income from a development economist's point of view?
2. Is income per capita a good measure of economic development? If so, why? If not, why not?
3.
  - (a) What is the HDI and what does it attempt to measure?
  - (b) What variables are included in the HDI?
  - (c) What are the highest and lowest possible HDI scores?
  - (d) Calculate the HDI for Zambia, noting that income per capita (measured in PPP terms) is 686, the adult literacy rate is 76%, life expectancy at birth is 43 years and the combined enrolment rate is 45% (data are from the 2000/1 World Development Report).
  - (e) How highly correlated is the HDI with income per capita and what does this imply?
4. How would we interpret the following regression equation?

$$\text{IMR}_i = 165.8^{***} - 0.094(\text{Y/P})_i^{***} - 13.9\text{FED}_i^{**} - 0.29\text{DPT}_i^* \quad R^2 = 0.67$$

(4.00)                      (2.10)                      (1.80)

where IMR is the infant mortality rate, Y/P is income per capita, FED is female education (mean years of female schooling) and DPT is the percentage of children under one immunised. Subscript *i* denotes country *i*. *t*-statistics are given in

parentheses (note: these are not reported in the reading). (Hint: see Hess and Ross (1997), appendix to chapter 1.)

5. According to Blair (2005), why should the rest of the world be concerned about poverty in Africa? Do you agree with Blair? Give reasons for your answer.

### **Tutorial 2** (week beginning July 25)

Question 1 is based on Rosenstein-Rodan (1943), which is included in the reading pack. Questions 2-5 are based on Todaro and Smith (2009) chapter three (or the same chapter in the 2006 or 2011 editions).

1. Why does Rosenstein-Rodan's analysis suggest that governments will need to plan for industrialisation to take place?
  
2.
  - (a) Assume that the capital to output ratio is 5 and that the savings rate is 10%. According to the Harrod-Domar model what will be the rate of economic growth?
  - (b) If the capital to output ratio is 4, what savings rate is required to achieve economic growth of 5% (according to the Harrod-Domar model)?
  - (c) What are the weaknesses of the Harrod-Domar model of economic growth?
  
3.
  - (a) Explain, with the aid of a diagram, how the Lewis model suggests the process of economic development takes place. Make sure you outline the key assumptions of the model.
  - (b) How would the analysis in (a) differ if capitalist profits were reinvested in labour saving technologies?
  
4. What are the weaknesses of the Lewis model of economic development?

5. How convincing do you find the arguments put forward by the neo-Marxist school of economic development? Give reasons for your answer.

**Tutorial 3** (week beginning August 1)

1. Using the Solow model framework, show diagrammatically what happens to the steady-state level of output per worker if the savings rate falls. Does the economy grow or contract? If so, will it do so indefinitely?
2. Show diagrammatically what would happen in the Solow model if the labour force growth rate were to slow. Does this mean the government should reduce the labour force growth rate (for example, by introducing policies to increase unemployment)?
3. With the aid of an appropriate diagram, explain the difference between conditional and unconditional (sometimes known as absolute) convergence.
4. “The Solow model suggests that all economies will have the same level of output per worker and the same growth rate of output per worker. This is clearly at odds with the real world evidence.” Do you agree with this statement? Give reasons for your answer.
5. “The Solow model predicts that, in the long-run, the growth rate of output per worker is independent of the savings rate. Therefore government policies to increase the rate of savings are pointless.” Do you agree with this statement? Give reasons for your answer.
6. List the major assumptions made in the Solow model of economic growth. How realistic do you think these assumptions are? If the assumptions were unrealistic, then what would this mean for the policy implications we have derived from the model?

**NOTE: There will be no tutorials the week beginning August 8.**

#### Tutorial 4 (week beginning August 15)

1. Which model of economic growth do you find the most realistic: the Solow-Swan model or the endogenous growth model? Give reasons for your answer. (Hint: you should consider which model you consider to be the most realistic in terms of its assumptions and predictions.)
  
2. “Rather than the government having to initiate a big push for economic development, the job could be done by a super entrepreneur.” Why is this unlikely to happen in reality? (See Todaro and Smith, 2009, pp.174-176 [pp.161-2 in the 2006 edition; 171-2 in the 2011 edition].)
  
3. Imagine a spillover model of endogenous growth where the production function can be given by  $Y_i = AK_i^\alpha H_i^\gamma L_i^{1-\alpha-\gamma} \bar{H}^\beta$ , where a subscript  $i$  denotes an individual firm’s quantity of a factor and  $\bar{H}$  denotes the economy wide stock of human capital.
  - (a) For the individual firm, what degree of returns to scale does the production function exhibit?
  
  - (b) Write the equation for the aggregate production function for the economy as a whole.
  
  - (c) What degree of returns to scale does the aggregate production function for the economy as a whole exhibit? Explain why the economy as a whole does not have the same degree of returns to scale as the individual firm.
  
  - (d) In this model, which factor of production should the government subsidise the accumulation of?

4. The big push model of Murphy, Shleifer and Vishny assumes that there are a large number of industries in the economy, and that currently all production is carried out in the traditional sector. Assume that the production functions for the traditional (or cottage) sector and industrial sector in each industry are given by the following production functions:

Traditional sector:  $L=Q$

Modern sector:  $L=10+0.5Q$

- (a) Draw a diagram showing the production functions for the traditional and modern sectors, for the shirt industry, which is a representative industry. Make sure that labour ( $L$ ) is measured on the horizontal axis and output ( $Q$ ) on the vertical axis.
- (b) On the diagram you have just drawn, indicate how much demand there will be for shirts, assuming that an entrepreneur sets up a modern sector firm in the shirt industry, but that in all other industries production is still carried out using traditional methods (label demand as  $Q_1$ ). *Explain why* demand is equal to the amount indicated on your diagram.
- (c) On the same diagram, indicate how much demand there would be for shirts, assuming that modern firms were established in all industries in the economy (label demand as  $Q_2$ ). *Explain why* demand is equal to the amount indicated on your diagram.
- (d) On the same diagram, draw the wage line for the modern sector that could potentially generate multiple equilibria. Explain the conditions under which the modern-sector shirt factory will be set up, and explain why it is that multiple equilibria are possible.

**NOTE: There will be no tutorials the week beginning August 22.**

### **Tutorial 5** (week beginning September 5)

The next three questions are based on Knack and Keefer (1997), which you can access via the library's e-journal portal.

1. What arguments are there to suggest that societies with higher levels of trust and civic norms will have higher levels of economic performance?
2. How do Knack and Keefer measure trust and civic norms? Do you think these proxies accurately measure what they set out to?
3. What evidence do Knack and Keefer present to suggest that societies with higher levels of trust and civic norms perform better economically?

The next question is based on Diamond (2005), which you need to download from the web (the URL is given in the reference list on pages 15-16 of this handout).

4. According to Diamond (2005), the world income distribution can largely be explained by geographic factors. Outline his argument. How convincing do you find his argument.

The next question is based on Acemoglu (2003) and Sachs (2003), both of which you need to download from the web (the URLs are given in the reference list on pages 15-16 of this handout).

5. Compare and contrast the views expressed in Acemoglu (2003) and Sachs (2003).

The next question is based on *The Economist* article "The road to hell is unpaved", which is included in the reading pack.

6. What examples of corruption are highlighted in *The Economist* article "The road to hell is unpaved"? Why would these examples of corruption impede economic development? What evidence is presented in the article that poor infrastructure is holding back economic development?

**NOTE: There will be no tutorials the week beginning September 12**

### **Tutorial 6** (week beginning September 19)

1. With the aid of a Lorenz curve diagram, explain why if two Lorenz curves cross we cannot conclude with certainty which of the two distributions is the most equal. (Hint: in lectures we discussed the following two income distributions: (75, 125, 200, 600) and (25, 175, 400, 400). You may find it helps to focus on this particular example when you try drawing the Lorenz curves.)
2. Consider the following distribution of income (10, 15, 25, 50, 100). For this distribution, calculate each of the following: the range, the ratio of the income share of the top quintile to the share of the bottom quintile and the Gini coefficient.
3. Of the four methods of redistributing income discussed in chapter five of Todaro and Smith (2006 or 2009) [chapter six in the 2003 edition], which do you think would prove the most effective and why?
4. According to chapter five of Todaro and Smith (2006 or 2009 or 2011), which groups in society tend to make up a disproportionate share of the poor? Why do you think this is?

### **Tutorial 7** (week beginning September 26)

1. Consider the following distribution of income (20, 30, 40, 60, 100)
  - (a) For this distribution of income, calculate the following measures of the extent of absolute poverty: the headcount index, the normalised poverty gap ratio, and the Foster-Greer-Thorbecke (FGT) ratio (with  $\alpha=2$ ). Assume that the poverty line is 50.
  - (b) What would happen to each of these measures if \$5 were taken off the poorest person and given to the person with an income of \$40?
  - (c) Discuss the strengths and weaknesses of each of the poverty measures you have calculated in (a) and (b).

The next question is based on *The Economist* (2010) article “A wealth of data”, which can be found in the reading pack.

2. Explain briefly how the Multidimensional Poverty Index (MPI) is calculated. What are the advantages and disadvantages of this measure, compared to the \$1 per day headcount measure of poverty?

The next three questions are based on Todaro and Smith (2006 or 2009 or 2011) chapter six.

3. If the number of children per family in developing countries were to fall immediately, population growth would still remain high for some time. Why is this?
4. What are the weaknesses of the neo-Malthusian population trap model?
5. What policy options are available to the governments of developing countries wishing to reduce the fertility rate? How effective are these different policies likely to be.

The next question is based on *The Economist* (2009) article “Go forth and multiply a lot less”, which can be found in the reading pack.

6. What is meant by the term “Goldilocks Generation”? Why does a country reaching the Goldilocks Generation provide an opportunity for accelerated economic development?

**Questions for remaining tutorials will be circulated at a later date.**

## NOTES ON ESSAY WRITING

The intention of these notes is to give you some ideas on how to tackle essay writing, both prepared essays (those that you do at home) and exam essays. The first section will concentrate on what is required to obtain a good grade, the second section includes some hints on how to go about writing essays. Section three will make some comments about the differences between prepared and exam essays.

### I Requirements for a good essay

*Presentation* (For prepared essays only)

Make sure that you put your name, the lecturer's name, and the question that you are answering at the beginning of the essay.

Essays should be typed or word processed (one and a half spaced) on unlined paper or **neatly** written in blue or black pen on lined paper, on one side of the page only. Do not write essay answers in pencil as these are often hard to read. If you use a word processor please use a font that is easy to read (for example: times, times new roman, palatino or courier) and do not use a font size smaller than 12 point. Number the pages, and leave a left hand margin of about one quarter of the page's width.

*Structure*

Think about what you want to say. **Plan** your essay. A good plan should help you to write more fluently and to achieve a more coherent result.

In its finished form the essay should include:

- (i) A brief introduction.
- (ii) A main body.
- (iii) A conclusion.

The introduction should make it clear what the essay is about (a good test here is to ask yourself if the introduction makes it clear what the question is). You should also give the marker some idea of how you are going to tackle the question. It can be boring to give necessary definitions or other information, but **some** might be necessary. For example, if the question asks you to analyse economic explanations for famines, defining "famine" would be a good idea.

The main body of the essay is where you present your arguments. Make sure you answer the question, do not simply tell the marker everything you know about the topic. Make sure you focus on the topic in hand early on in the essay. If you take a page or so to warm up this does not leave a good impression (and it also uses up valuable words). Remember that you are answering an economics essay; the marker will expect you to use economic reasoning rather than hearing unsubstantiated opinions. When making an argument, give supporting evidence where possible. For example, rather than just saying that savings rates are high in East Asia, present some supporting data.

In the conclusion summarise your main points and answer the question. This is a good way of reminding the marker of all the good points you have made during your essay. Do not introduce new points in the conclusion (if something was not important enough to include in the body of your answer it certainly does not belong in the conclusion where you are

summarising your **main** points). The importance of a strong conclusion can not be over emphasised. A weak conclusion (or no conclusion at all) can easily ruin what is otherwise a good answer.

### *General*

When marking essays the marker is interested in how well you explain yourself. We do not just give full marks to those who mention relevant points, they also have to be clearly argued. We expect essay answers to be written in complete sentences, rather than in note form. Do not use abbreviations for individual words (for example, do not abbreviate “between” to “btw” and avoid contractions such as “&”). Commonly used acronyms are fine, as long as the first time you use the term you write it in full, followed by the abbreviation in parentheses. For example, if you want to avoid having to write “less developed country” several times, the first time you use the term write “less developed country (LDC)” and from then on use the abbreviation “LDC”. Avoid informal writing and emotive language, unless you feel there is **overwhelming** justification for its use.

### *Referencing*

You should correctly reference all sources. Any direct quotations should be enclosed by quotation marks and the author’s name, the date of publication and the page number must be given in parentheses after the quotation. For example: “As people throughout the world awake each morning to face a new day, they do so under very different circumstances.” (Todaro and Smith, 2006, p.3) This practice should also be followed when using an argument or idea first put forward by someone else (by doing this you are admitting you did not come up with this idea yourself). For example: Kuznets (1955) argued that in the early stages of economic development the distribution of income will become more unequal. However, if you are simply stating something that is generally accepted as fact then you need not acknowledge the source. For example, if you state that the New Zealand dollar was floated in 1985 you do not need to acknowledge the source of this fact.

If you copy your answer from a book (or internet site) and do not acknowledge the source then you are effectively passing another person’s work off as your own. This is known as plagiarism and is a form of cheating. Most markers will automatically award a mark of zero for such answers. If your answer is made up largely of work copied from elsewhere and is correctly referenced then, strictly speaking, this is not plagiarism, but you will get a very low mark. It is vital that you express yourself in your own words, not the words of others.

At the end of your essay you should have a section headed “References” which gives details of all references used to write the essay. There are many different acceptable styles for presenting references. However, all referencing styles include the following information. For journal articles give the author’s name, the date, the name of the article, the name of the journal, the volume and the page numbers. For books give the author’s name, the date, the title of the book, the name of the publisher and the place of publication. A couple of examples, in the style most commonly used in economics, are given below.

Kuznets, S. (1955) “Economic growth and income inequality”, *American Economic Review*, vol.45, pp.1-28.

Todaro, M.P. and S.C. Smith (2006) *Economic Development* (ninth edition), Pearson Addison Wesley, Essex, England.

When referencing internet sites, please give the name of the site, the URL and the date accessed.

*A note on the use of internet sites for research purposes*

Much material on the internet is not refereed and hence has not been subject to the same careful checking that books and journal articles go through (this comment does not apply to working papers and journal articles downloaded from the web). You should place more reliance on what you have read in books and journal articles, than on non-refereed websites. An essay that only cites material from the web runs the risk of being considered poorly researched.

*Length*

Most essay questions will stipulate a maximum word length. Most markers allow a small margin for error and then deduct marks for excessively long answers (to do otherwise would be unfair on those that kept to the word limit). Learning to write concisely is an important skill. The key is to make sure that the information you include in your answer is more relevant to answering the question than any information you leave out.

## **II Essay writing hints**

*(1) Understanding the question*

Before doing anything else, make sure you understand the question. Start by identifying key words which tell you what type of response is expected. Examples of such key words are: comment, explain, appraise, outline, compare, contrast. Also identify key words of the topic; those that have special meanings that must be understood before an answer can be written. Consider the following question:

*Prior to 1997 the East Asian economies had higher rates of economic growth than any other region in the world. What economic explanations are there for these high rates of economic growth? Which explanation do you think is the most important?*

Note that the first sentence is simply setting the scene. It is the second two sentences that you need to concentrate on. The key word is “explanation” therefore, make sure you do **explain** why these countries have grown so quickly. An essay that does nothing but discuss how quickly the East Asian economies have grown is not answering the question.

For a prepared essay, if you are not sure what the question is really asking, check with the lecturer concerned.

*(2) Reading*

Begin by reading relevant sections of the text book, or any other readings that your lecturer has recommended on the topic. The next step is to read more widely (the text book and other suggested readings will give you some ideas as to what else to read). When you come across a good idea note its source so you can cite it.

*(3) Draft*

Think carefully about how you are going to structure your answer before you begin writing. Even in exam situations it is a good idea to note down the key points you are going to make before you start writing the essay.

Proof-read your work carefully. If your spelling and grammar are not very good, get a friend to proof-read your work for you. Poor grammar and incorrect spelling make your work appear slovenly. Very poor grammar and spelling also ruin the flow of an essay, making it hard for the marker to follow the argument.

*(4) Revision and final copy*

If possible, leave your draft aside for a day or two. Then read it carefully; perhaps aloud to someone else. Correct errors of grammar, spelling and logic. Rewrite (or remove) any awkward phrases or words. Make sure your arguments are made in a logical order. When you have done all this, read the answer again.

Keep a photocopy or electronic copy to avoid any difficulty with “lost” essays.

### **III Exam answers versus prepared essays**

In an exam you are under a lot more pressure to write an answer within a particular time limit. However, most of the rules that apply to writing a prepared essay should also be followed in an exam situation. Correct structure of an answer (introduction, body, conclusion) is just as important as with a prepared essay. However, there are some things you need not worry about in an exam situation. For an exam question you need not worry about the presentation requirements given above. Most markers would not expect you to worry about referencing in an exam situation either. It is unlikely that word limits will be stipulated for exam essays. Be guided by mark allocation. Economists should be able to work out how to allocate time in exams, given the diminishing returns to time and effort spent on a particular question. Take time to plan your answer, do not rush straight into writing the essay. Keep in mind that a well argued shorter answer will always outscore a longer answer which rambles and keeps repeating itself. As with a prepared essay, make sure you answer the question rather than telling the marker everything you know about the topic area (you will not get any marks for discussing irrelevant material).