

<b>Course Title</b>	<b>Macroeconomics of Development</b>		
<b>Programme Title</b>	<b>M.A. Economics (Development and Policy)</b>		
<b>Specialisation</b>			
<b>Mode</b>	<b>M1</b>	<b>Level</b>	4
<b>Course ID</b>		<b>Credits</b>	4
<b>Course Type</b>	Core	<b>Trimester</b>	2
<b>Version</b>	1.0	<b>Academic Year</b>	2022-23
<b>Course Development Team</b>	<b>Srinivas Raghavendra</b>		

## Rationale and Introduction

This is the second of a two-course sequence in Development Economics. The sequence is designed to introduce students to the principal problems of developing economies with a focus on policy. The first course deals with the microeconomic aspects of development, while the second one is focused on the macroeconomic aspects.

## Learning Objectives

- Describe the basic structure of a dual economy and consequences thereof for traditional models.
- Evaluate the supply-side and demand-side approaches to the macroeconomy in the developing country context and draw policy conclusions from them.
- Analyse mainstream and heterodox macroeconomic models of growth and structural change, and extend them to make them more useful or realistic.
- Apply above models to real data and draw implications thereof.
- Write programmes in Stata/R to estimate relationships between growth, employment, inequality, and structural change.

## Syllabus and Readings

The course has four main modules. The first main module “Divergence, Convergence, and modern economic growth” introduces students to the impact of colonialism on divergence and recent evidence for convergence – i.e. have poor countries grown faster on average than rich countries, thereby reducing the income gap between them. The second module “Structural change: theory and evidence” introduces the dual economy, the relationship between growth and structural change, and comparative experiences of structural change. The third module “Structural change: Policy” covers the historical experience of policy-making to promote structural change. Industrial and trade policies are discussed in depth. The last module “Open economy issues” examines the relationship between the external sector

(balance of payment, exchange rates, foreign aid) and structural change.

### **Part One - Divergence, convergence, and modern economic growth**

A central question in international macroeconomics has been whether the relatively poor countries have consistently grown faster than the rich countries, thereby reducing the income gap between them. Or instead, has the gap widened over time? What difference does China make to this story? And India? This unit introduces students to this debate. It also gives them an opportunity to work with cross-country data to test convergence.

#### **Unit One: Introduction to Growth and Structural change in Economic development**

This short introductory unit will start with an introduction to the methodological aspects, analytical methods, and substantive differences between schools of thought in the analysis of growth and structural change.

##### *Background readings*

1. Mouton, Nicolaas. "Metaphor and economic thought: A historical perspective." *Metaphor and mills: Figurative language in business and economics* (2012): 49-76.
2. Klammer, Arjo, and Thomas C. Leonard. "So what's an economic metaphor." *Natural images in economic thought: markets read in tooth and claw* (1994): 20-51.

#### **Unit Two: Colonialism and the great divergence**

The course begins with a brief overview of the origins of the dual economy in the colonial encounter.

##### *Background reading*

1. Cypher James and James Deitz (2009) Development in historical perspective, Ch. 3 of The Process of Economic Development, Routledge.
2. Galeano Eduardo (1997) Lust for Gold, Lust for Silver (Part 1 and Part 2), Ch. 1 of The Open Veins of Latin America: Five centuries of the pillage of a continent, NYU Press.

##### *Readings*

1. Marx K (1867) The secret of primitive accumulation (Ch 26) and The modern theory of colonisation (Ch 33) of Capital Volume 1: <https://www.marxists.org/archive/marx/works/1867-c1/>
2. Pomeranz Kenneth (2021) Preface and Introduction to The Great Divergence: China, Europe, and the Making of the Modern World Economy, Princeton University Press.
3. Broadberry, S., Custodis, J., and Gupta, B. (2015). India and the great divergence: An Anglo-Indian comparison of GDP per capita, 1600–1871. *Explorations in Economic History*, 55, 58-75.

#### **Unit Three: Convergence- theory and evidence**

This unit introduces the theory behind convergence as well as recent evidence for it.

##### *Readings*

1. Ray Debraj (1998) Economic Growth, Ch. 3 of Development Economics, Princeton University Press.
2. Basu Kaushik (1997) Growth and Development, Ch. 3 of Analytical Development Economics, MIT Press

2. Patel, D., Sandefur, J., and Subramanian, A. (2018) The New Era of Unconditional Convergence, Center for Global Development, Working Paper 566 (blog version here).

## **Part Two – Structural change: Theory and Evidence**

This module takes a “mesoeconomic” sectoral model, based on the work of Lewis, Ranis-Fei, and Harris-Todaro as its foundation. Developing societies are modeled as consisting of two sectors, one “traditional” or informal and another “modern” or formal. The development process is explored as a process of structural change where resources move from the informal to the formal sector (the “Lewis Process”) and from the agricultural to the manufacturing and service sectors (the “Kuznets Process”).

### **Unit Four: Dual economy models**

This unit covers the theoretical literature on the dual economy and structural change. Most developing countries are characterised by a large informal sector and a small formal sector. They also possess large reserves of labour. The theories covered in this unit give students an analytical framework to understand why this is the case and what can be done about it.

#### *Readings*

1. Ray Debraj (1998) Rural-Urban, Ch. 10 of Development Economics, Princeton University Press.
2. Lewis, WA (1954). Economic Development with Unlimited Supplies of Labour, The Manchester School Journal.
3. Ghose Ajit (2006) Economic Growth and Employment in Labour-Surplus Economies, Economics and Political Weekly.

### **Unit Five: Theory and empirics of structural change**

Structural change refers to the process by which an economy consisting largely of agricultural workers and small producers becomes industrialised. Here we will learn about the current thinking on this process, is it occurring as expected, if not why not, etc. We will work with cross-country data to assess the progress of structural change in various developing economies.

#### *Readings*

1. Herrendorf, B., Rogerson, R., and Valentinyi, Á. (2014). Growth and structural transformation. In Handbook of economic growth Vol. 2, pp. 855-941, Elsevier.
2. Mc Millan, M., Rodrik, D., and Sepulveda, C. (2017). Introduction to Structural change, fundamentals, and growth: A framework and case studies. The World Bank.
3. Nayyar Deepak (2019) Structural Change and Economic Transformation, in Resurgent Asia: Diversity in Development, Oxford University Press.
4. Storm, Servaas (2015) Structural Change, Development and Change 46(4): 666–99.
5. Rodrik, Dani (2016). Premature deindustrialization, Journal of Economic Growth, 21(1), 1-33.
6. Amirapu, A., and Subramanian, A. (2015). Manufacturing or services? An Indian illustration of a development dilemma. Center for Global Development Working Paper, 408.

### **Part Three - Structural Change - Policy**

Is free trade compatible with industrialisation? Or is protectionism necessary? Should countries stick to their comparative advantage or defy it? Importance of industrial policy in stimulating industrial development. Reasons for success and failure of the industrialisation process across the world.

#### **Unit Six: Industrial and Trade Policy**

##### *Readings*

1. Cypher James and James Deitz (2004) The initial structural transformation: initiating the industrialization process, Ch. 9 of The Process of Economic Development, Routledge.
2. Cypher James and James Deitz (2004) Strategy switching and industrial transformation, Ch. 10 of The Process of Economic Development, Routledge.
3. Ray Debraj (1998) Trade Policy, Ch. 17 of Development Economics, Princeton University Press. (READ till page 684)
4. Rodrik, Dani (2011) The future of economic convergence, National Bureau of Economic Research No. w17400.
5. Debate between Ha-Joon Chang and Justin Lin on Comparative Advantage in Development Policy Review.

#### **Unit Seven: Comparative experiences of industrial policy**

##### *Readings*

1. Cherif Reda and Fuad Hasanov (2019) The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy, IMF Working Paper WP/19/74. (READ only till page 12)
2. Amsden Alice (1989) Getting Relative Prices 'Wrong', Ch. 6 of Asia's Next Giant: South Korea and Late Industrialization, Oxford University Press.
3. Kay, Cristobal (2002) Why East Asia overtook Latin America: Agrarian Reform, Industrialisation and Development, Third World Quarterly, Vol 23, pp 1073-1102.
4. Chibber, V. (2003). Chapter Two of Locked in place: State-building and late industrialization in India. Princeton University Press

### **Part Four: Open economy issues**

A developing country often relies on imports that are crucial to its economy (such as oil, advanced machinery, proprietary technology). It finances these imports with export earnings or capital inflows. The exchange rate is a crucial price in this process. It determines the domestic price of imports and the competitiveness of a country's exports. If the balance of payments system is not managed well (e.g. by keeping the exchange rate far above the market value to make imports cheap), it can result in crises, such as the one experienced by India in 1991. This unit is about this problem and broadly cover the topics such as the foreign exchange constraint, the Dutch disease and deindustrialisation and Foreign savings and financial crises.

## Unit Seven: Balance of payments

### *Readings*

1. Cypher James and Deitz James (2007) *The Process of Economic Development*, Chs. 15, 16, and 17
2. Stiglitz Joseph (2003) *The East Asia Crisis- How IMF Policies Brought the World to the Verge of a Global Meltdown*, Ch. 4 of *Globalization and its Discontents*, Norton Books. Part 1 and Part 2.
3. Aizenman, J. (2010). The impossible trinity (aka the policy trilemma).

## Unit Eight: India's experience

### *Readings*

1. Amirapu, A., and Subramanian, A. (2015). Manufacturing or services? An Indian illustration of a development dilemma. Center for Global Development Working Paper, 408.
2. Chatterjee, S., and Subramanian, A. (2020). India's inward (re) turn: Is it Warranted? Will it Work?. Ashoka Center for Economic Policy, Policy Paper, (01).
3. Virmani, A. (2002, December). India's BOP crisis and external reforms: Myths and paradoxes'. In *Public Policy Workshop Paper, ICRIER*.

## Unit Nine: Aid, Debt, and Growth (One Week)

The system of international development financing via institutions such as the IMF, the World Bank, DFID, USAID etc. is the focus of this unit. In particular, we ask, has aid helped growth? What happens when countries get trapped in debt? What if foreign loans are wasted or embezzled by corrupt regimes? Should the people be held responsible for paying it back?

### *Readings*

1. Rajan, R. G., & Subramanian, A. (2008). Aid and growth: What does the cross-country evidence really show?. *The Review of economics and Statistics*, 90(4), 643-665.
2. Addison Tony and Tarp Finn (2015) Aid Policy and the Macroeconomic Management of Aid, *World Development* Vol. 69, pp. 1–5.
3. Ndikumana, L., & Boyce, J. K. (2011). *Africa's odious debts: how foreign loans and capital flight bled a continent*. Zed Books Ltd.

## **FINAL EXAM**

### **Pedagogy**

Teaching will comprise a mixture of online lectures, pre-recorded lectures, online materials (lecture videos and docunnetaries).

### **Course Materials and Announcements**

Moodle: We will use this network resource for course readings, announcements, group work, informal

discussion, and other activities/ material. Make sure you stay abreast of email course announcements, Moodle postings, schedule changes, etc.

## **Assessment and Grading**

### Homework assignments (30%)

Three homework assignments consisting of a mix of problems and short-answer questions. These assignments are designed to test whether students are able to take a reasoned position on an issue of developmental interest, manipulate an existing model in a small way, and solve optimisation problems.

### Data assignments (30%)

Three assignments where students will be expected to use Stata/R to process economic data, perform analyses and present results in written form. These assignments test ability to work with real-world data and connect it to theoretical concepts. They also test ability to imagine how to best visualise data.

### Midterm exam (20%)

There will be an in-class midterm exam roughly half-way through the semester. The exam will have problems that are similar to the homework assignments but will allow the assessment of the student's own ability and understanding without any help being available.

### Final exam (20%)

There will be an in-class comprehensive final exam at the end of the semester. The format and rationale is the same as above.

## **Academic Conduct**

The University's academic integrity policies will apply. Please see Moodle for norms and regulations on device-use, plagiarism etc.

## **Grading Scheme**

97 - 100 – O

93 - 96.9 – A

87 – 92.9 - A-

80 – 86.9 – B

70 – 79.9 – C

60 – 69.9 – D

50 – 59.9 – E

< 50 - U