

Module Overview: The Economics of Developing Countries

The poorer, developing countries of the world are home to 3/4ths of the world's population; and of the 5 billion people on this planet, perhaps 1 billion live in absolute poverty barely able to survive from day to day. The central questions we want to try and answer in this module are: What causes the great differences in the wealth of nations? Can the world peacefully survive with poverty in the midst of plenty? What steps can poorer nations take to improve their living standards?

These questions are among the greatest challenges facing modern economics; and we shall see in this module that the tools of macroeconomics, particularly economic growth theory, can make a very big difference in people's daily lives.

We begin by describing the characteristics of developing countries and reviewing some of the key ingredients in the process of economic development. We then turn directly to the question of why some countries succeed at development while others fail.

In exploring this question, we will examine the debate over different development strategies, from relying upon an industrialized versus agricultural economy and a state run versus market-oriented economy to an economy that is open or closed to global trade. We will also provide the consensus view of the best development strategies and comment on the most constructive role of the industrialized nations in this process.

Key Questions:

1. What are some of the most important characteristics of developing countries?
2. Describe the Malthusian trap associated with population growth.
3. Explain the demographic transition view of population growth.
4. What is the so-called "brain drain?"
5. What is the Catch-22 of capital formation for many developing countries?
6. Illustrate the vicious circle of poverty.
7. Regarding strategies of economic development, describe and assess three major strategic choices faced by developing countries.
8. List nine ways for developing countries to enhance economic growth.