

## **Econ333-08: Economic Development**

Professor Lakshmi K. Raut

Fall 2000, *T,Th:4:00-5:15PM, Room: LH 301*, phone: (714)278-5481

Office hours Tuesdays 12:30PM-3:30PM, 6:00-7:00PM, Room #LH 715

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**Home page:** <http://137.151.48.221>

**The internet site for this course:** go to my above home page and then follow the link to Teaching->Fall 2000 at CSUF->Econ333-08.

### **1 Course objective**

As you know almost five out of six billion people of the world live in poorer countries. Many of them live in absolute poverty, on incomes less than a-dollar-a-day. A large number of children in these countries do not have much human capital in terms education and other social skills, and most of them suffer from bouts of AIDS, malaria, measles and other childhood diseases from which they either die before reaching age five, or they acquire poor health status and learning disabilities. Their prospects of getting out of poverty disappear right in front their eyes in their early childhood. The adults generally have low human capital and productivity level and thus earn low income. While life expectancy is generally low due to low health and nutritional status, those who live up to their old-age are generally thrown to live at the mercy of others since they did not accumulate enough resources for their old-age, there are no formal social security program, and there are too few adults to take care of the elderly. The poverty problem is further accentuated in these economies because poorer households lack collateral to borrow money to invest in productive activities and to invest in their children's education. Generally, these economies export primary products whose market deteriorates over time, and due to poor skill composition of the labor force and poor infrastructure, these economies are unable to attract skill intensive foreign physical capital such as factories through multinational companies, and due to poor governance and underdeveloped institutions (corruption, under-developed legal systems, underd-developed financial systems) not much international financial capital flows into these countries.

In this course, we will examine the living conditions of the people in poorer countries and examine some of the factors (along the above lines) that explain why some countries are poor and the others are rich; why within a country, some people are struck in absolute poverty while others prosper from economic growth; and also examine the role of international trade and capital flows in the development process.

### **2 Course requirements**

There will be a few homework assignments which will not be graded, but you should do them all since one problem in each exam will be taken from these problems and other problems in the exams will be similar. Partial answer keys will be posted on the course site. You are required to write a term paper which will involve analyzing some country level public domain data on issues covered during the course, and writing a *neat report*. The term paper must be typed double spaced and should not exceed 15 pages. After the empirical assignment is handed some time during the middle of the semester, you must see me at least three times (the meeting times will be indicated in the assignment) to discuss with me your plans and progress. Failure to do so, may result in poorer grade. I will also explain how to write the term paper in the class and in a computer lab. Each of you must work on your term paper independently.

The term paper will carry 40%, mid-term exam will carry 30% and the final exam will carry 30% of your grade. There will be no make-up exam under any circumstances. Some of the course materials may not be available in the text book, I will post them on the course site. You will need a password to retrieve them. A few classes will be held in the computer lab and during that time I will cover some the empirical techniques that will be useful for your empirical term paper. It is important to attend all the classes. If you miss any class, please arrange with a classmate for the lecture notes. Since announcements, and course materials will be on the course site, it is essential that you visit the course internet site very frequently.

I emphasize a great deal on interactive learning. That means you must participate in the dialogues and discussions in the class. You might get some extra credit for doing so. This skill will also help you in your professional life after you graduate from school.

**ELIGIBILITY:** Economics 100 or 201.

**MID-TERM EXAMS:** Mid-Term Exam: Thursday, October 26, 2000 in class.

**TERM PAPER DUE DATE:** in class on the last day of the class.

**FINAL EXAM:** December 12, 5:00-6:50PM

**TEXT:** Michael Todaro, "Economic Development" (Seventh Edition) Addison Wesley Longman 1999.

## **SYLLABUS**

### **1. Introduction: Nature of development problems(Todaro Chapters 1, 2 and class notes)**

- A (magic school bus) tour to see the living conditions of people around the globe.
- Structures of Developing economies
- Measurement of living standards: per capita income (GNP per capital), Physical Quality of Life Index (PQLI), Human Development Index (HDI).
- Development Policy Objectives. Click on the following link  
<http://137.151.48.221/Courses/CSUF/Econ333/Common/bwae.pdf>

### **2. Preparation for economic analysis of growth in living standards (class notes)**

- Representation of National Income by Production Function. Production Possibility Frontier (PPF). Technological change; potential *vs* Actual Output; trend in potential and actual output and business cycles.
- Measurement of Growth (Linear and exponential growth rates; Computation of Catching up time and Double up time; Growth Rates of functions; Computation of growth Rates)

### **3. Accounting for Observed Growth (class notes, and articles)**

- Capital: *household savings, government budget deficit and foreign capital flows*
- Labor: *population, hours of work, and education, health status*
- Knowledge and productivity growth: *R&D, technology import, direct foreign investment*

- **Macro Evidence on Sources of Growth**

- U.S., Korea and Japan (Class notes)
- \*An international Comparison: Korea, Japan, U.S., Canada, Belgium, Denmark, France, West Germany, Italy, Norway, U.K. Denison, 1962, click on the following link  
<http://137.151.48.221/Courses/CSUF/Econ333/Common/Denison.pdf>

#### **4. Basic Descriptive Models of Growth and Development.**

- Stylized Facts about a few macro variables: Kaldor's findings on U.S. (**class notes**)
- Harrod-Domar Model of growth and development (Todaro pp.80-83)
- Lewis Dual Economy Growth Model (Todaro, pp:84-90)
- Solow model with labor-augmenting technological change (class notes)

#### **5. Poverty and Income Distribution.**

- Todaro Chapter 5
- \* World Bank Document. Click on the following link:  
<http://www.worldbank.org/poverty/mission/up1.htm>

#### **6. Population Growth and Economic Development**

- The Demographic Transition (Todaro, pp.222-224)
- Malthusian Population Trap Model (Todaro, pp. 224-229)
- Microeconomic Household Theory of Fertility (Todaro pp.230-234)
- Current crises arising from the early twentieth century demographic transitions (class notes):
  - Old-age Pension Problems
  - Epidemiological (disease) Problems

#### **7. Labor Market (Human capital theory of earnings distributions and social mobility).**

- Investment in Education (Todaro ch. 9)
- Investment in early childhood development, article by Entwisle, click on the url:  
<http://137.151.48.221/Courses/CSUF/Econ333/Common/Entwisle.pdf>
- Investment in Health (class notes)

#### **8. International Trade, International Capital flows, Currency crisis and Economic Development:**

- Todaro ch. 12, 13 and 15 and other readings to be supplied.