

Econ333-11: Economic Development

Professor Lakshmi K. Raut

Spring 2001, *Tuesdays: 7:00-9:45PM, Room: LH 301*, phone: (714)278-5481

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The internet site for this course: go to my above home page and then follow the link to Teaching-> Under Spring 2001 click on: Econ333.

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 of education and other social skills, and most of them suffer from bouts of AIDS, malaria, tuberculosis, 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, under-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 the 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, the topic will be announced later. During the first two weeks you must meet with me during my office hours to set-up your login id and password for the restricted course material access. Without login id and password, you will not be able to access the material, which is very useful for your course. I will have roll calls on random lecture days. There will be a few debates and you should participate in those debates.

The midterm exam carries 35%, term-paper carries 20%, class attendance and participation carries 10% and the final exam carries 35% of the 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 login id and password to retrieve them. 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. This skill will help you in your professional life after you graduate from school.

ELIGIBILITY: Economics 100 or 201.

MID-TERM EXAMS: Mid-Term Exam: Tuesday, March 20, 2001 in class.

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

FINAL EXAM: May 22, 2001, 7:30-9:20PM, Room LH301

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).

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 doubling 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/Econ333/2001Spring/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)

5. Poverty and Income Distribution.

- Todaro Chapter 5

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 (developed in class):
 - 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, and also developed in class during debates)
- Investment in early childhood development, article by Entwisle, click on the url:
<http://137.151.48.221/Courses/CSUF/Econ333/2001Spring/Entwisle.pdf>
- Investment in Health (developed in class during debates)

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

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