

## **Econ325b: Economics of Developing Economies**

Professor Lakshmi K. Raut

Spring 2000, *T,Th:11:30-12:45, Room: ML 104*

Office hours Wednesdays 12:00PM-2:00PM, Room #314 at 28 Hillhouse Ave.

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### **EXAMS AND GRADING:**

There will be a few regular homework assignments which will carry 20%, an empirical homework 25%, mid-term exam 25% and the final exam 30% of your grade. There will be no make-up exam under any circumstances. The course materials will be mostly developed in the class. So it is important to attend all the classes. If you miss any class, please arrange with a classmate for the lecture notes. Partial lecture notes will be posted on the internet site for this course.

The announcements, homework assignments, and partial answer keys to assignments and partial lecture notes will be kept in the following internet site:

<http://pantheon.yale.edu/~rkl4/Courses/Econ325b.html>

*(some of the course materials will require a password which will be given to you in the class).*

**MID-TERM EXAMS:** the First Mid-Term: ????

**FINAL EXAM:** As scheduled by the University.

### **Recommended Texts:**

- Charles Jones, "Introduction to Economic Growth," W.W.Norton & Company, New York, 1998.
- Wilfred Ethier, "Modern International Economics," W.W. Norton, 3rd Edition, New York, 1997.
- There will be a few chapters of other books, such as (1) Michael Todaro, "Economic Development" (Fifth Edition) 1994; (2) Debraj Ray, "Development Economics," Princeton University Press, New Jersey, 1998. These chapters will be available at the soft reserve of CCL and SSL libraries for you to consult.

## **PART I: OVERVIEW**

### **1. Introduction: Nature of Development problems (Todaro Chapter 2, and classnotes)**

- Structures of Developing economies
- Measurement of living standards
- Other indicators

### **2. Representation of National Income by Production Function (class notes)**

- Production function, 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).

#### **4. Basic Descriptive Models of Growth and Development (lecture notes, and partly from Jones, Todaro, Ray)**

- Stylized Facts about a few macro variables: Kaldor's findings on U.S.
- Harrod-Domar Model: no factor substitution and Knife-edge instability
- Solow model: factor substitutions and stability
- Solow model with Harrod-neutral technological change
- Lewis Dual Economy Growth Model (Todaro, pp:74-80; Ray, pp:x-x )

### **PART II: Markets, Institutions, and Economic Development**

Our focus in this section will be on human resources.

#### **5. Details on the components of labor (household decisions and labor market outcomes)**

- Distribution of earnings and its determinants
  - Labor hours
  - Education
  - Health – malaria and other diseases leading to high infant mortality and lower health status and living standard
  - Fertility choices
- Labor mobility
  - Geographical mobility
  - Social mobility
- Evaluation of social programs
  - an introduction to redistributive justice, cost-benefit analysis, cost-effectiveness analysis, cost-utility analysis, and willingness-to-pay. We will illustrate these for health and education.

### **PART III: INTERNATIONAL ISSUES IN DEVELOPMENT**

#### **6. International Trade and Factor Movements and Development:** (selected chapters from Ethier book).

- International Trade (Basic models of pure trade, and implications for development experiences of countries and trade policies)
- International labor movement (briefly)

- International Capital Flows

## **7. Financial Sector**

- Nature of credit institutions in less developed countries; nature of credit contracts in formal and informal lendings.
- Asian currency crisis (references will be provided)

## **PART IV:**

## **8. Endogenous growth Models** (endogenizing the engines of growth, will be covered if time permits)

Out of many we consider the following ones

- Intellectual property rights, patents, R&D and technological change – Romer Model (see Jones)
- Human capital investment – Lucas Model
- Population density and technological change (cf. Raut and Srinivasan)