Politics of Growth | PS 2543

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Welcome

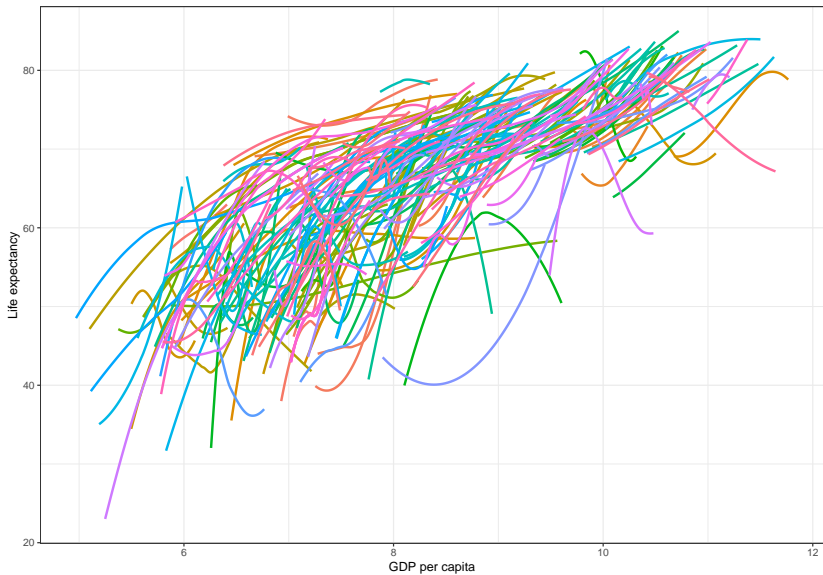Why are we interested in growth?

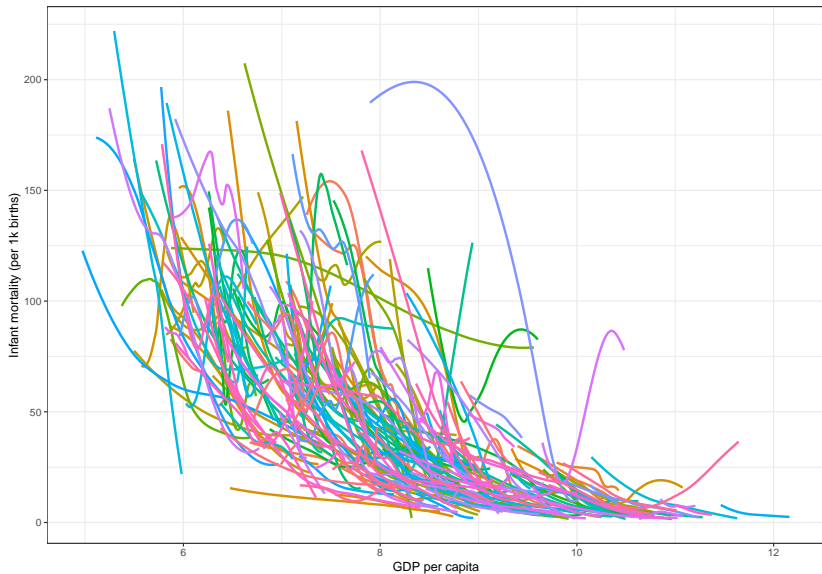Figure 1: GDP per capita and life expectancy. Figure: Aklin. Source: WDI.

Figure 2: GDP per capita and infant mortality (death per 1,000 births).
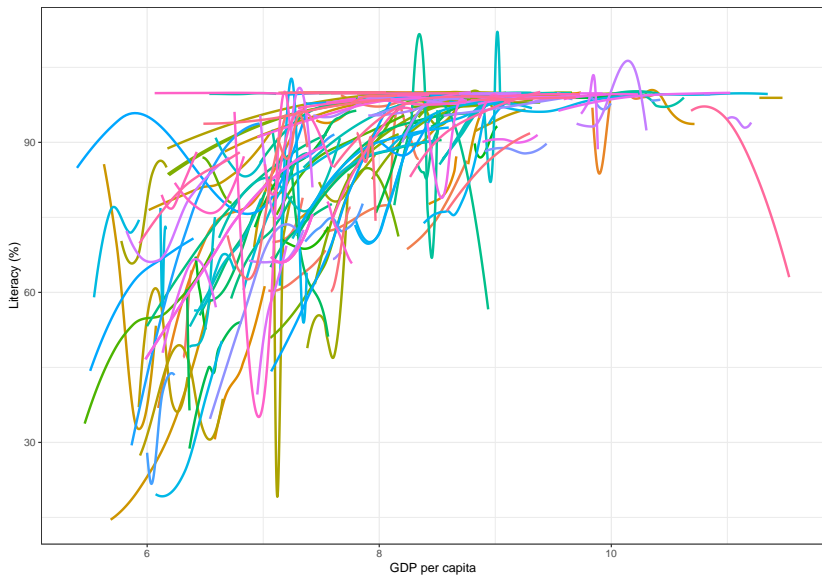Figure: Aklin. Source: WDI.

Figure 3: GDP per capita and literacy. Figure: Aklin. Source: WDI.

Two divisions in political economy:

- ▶ (i) Micro vs. macro
- ▶ (ii) Long-term (growth) vs. short term (business cycle)
- ▶ 19th century: interest in long-term growth (Ricardo, Smith)
- ▶ Late 19th-130s: lots of interest in business cycle (Great Depression)
- ▶ Since 1945: return of growth studies
    - ▶ Rapid growth in the West
    - ▶ Growing global inequality
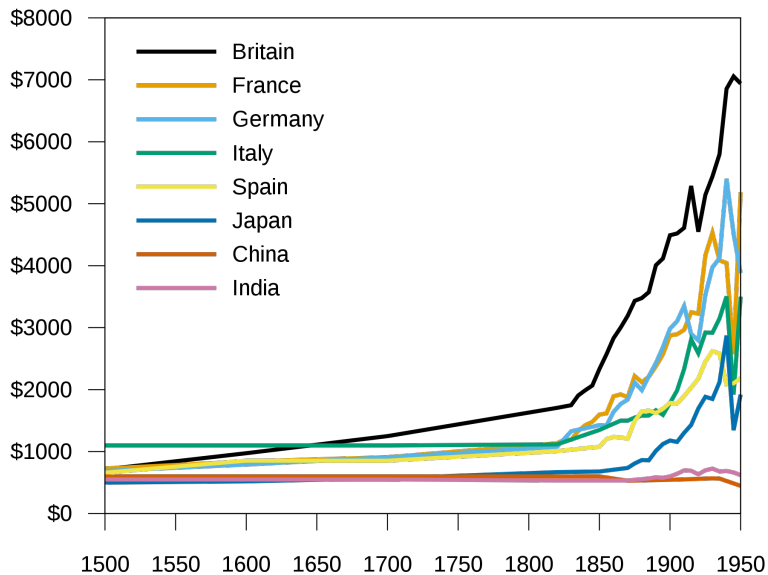
Great divergence

Figure 4: Data: Maddison. Source: wiki.

How to make sense of it?

Early attempts: Solow-Swan growth models.

Input: capital. Labor, technology: constant

$$Y = F(K) \qquad F \equiv \text{prod function}$$
$$F'(K) > 0$$
$$F''(K) < 0$$

Q: how does Y grow? A: when K grows!

Q: how does K grow? A: investments!

$$\frac{\partial K}{\partial t} \equiv \dot{K} = I \qquad\qquad = sY - \delta K$$

$$= sF(K) - \delta K$$

$$K* \to sF(K) - \delta K = 0$$

2nd last expr: fundamental differential equation of neoclassical growth theory

Adding labor

$$Y = F(K, L)$$
$$F(\lambda K, \lambda L) = \lambda F(K, L) \qquad \text{constant ret scale}$$

If pop L grows at rate n:

$$
\begin{aligned}
y &\equiv \frac{Y}{L} \\
&= \frac{F(K, L)}{L} = F(K/L, 1) \\
&\equiv f(k)
\end{aligned}
$$

If we assume $F()$ is Cobb-Douglas:

$$Y = K^\alpha L^{1-\alpha} \qquad\qquad 0 < \alpha < 1$$
$$k = k \qquad\qquad\qquad\qquad \alpha$$

Then:

$$\dot{k} = sf(k) - (\delta + n)k$$

- ▶ Thus: growth goes to zero and depends on labor, capital
- ▶ Empirically: not great to explain divergence
- ▶ Addition: human capital, technology (grows at rate g)

$$Y = (AL)^{1-\alpha} K^{\alpha}$$
$$\dot{k} s k^{\alpha} - (n + g + \delta)k$$

- ▶ That brings us to the 1980s (Heckman, Barro, Mankiew)
- ▶ Since then: Schumpeterian growth
- ▶ And: institutional theory
    - ▶ Institutions (North, Weingast, Ostrom, Acemoglu, Robinson)
    - ▶ Contracts and incentives (Coase, Williamson, Duflo, Pande)
    - ▶ Iconoclasts (Przeworski, Hirschmann)

Assignments

- ▶ 50%: a research project/pre-analysis plan (including theory + empirical design; data analysis optional)
- ▶ 40%: in-class presentations and participation.
- ▶ 10%: a book review.

Structure

1. Lecture (when applicable)
2. Presentations of papers
3. Presentation of own research

Presenting a paper

- ▶ ~20 minutes
- ▶ Summarize:
    1. Research question and why it matters (if it does)
    2. Theory: what explains the variation of what and why
    3. Empirical strategy and results
- ▶ Discuss: what's next?
    - ▶ Expanding theory?
    - ▶ Using empirical strategy?
    - ▶ etc.

Presenting your own research

▶ You will all present at least three times

1. Research question

2. Theory

3. Empirical design

4. Analysis

Online

Signup sheet for presentations: shorturl.at/bjkmt.

Homepage for the course:
https://michaelaklin.github.io/2023_ps2543/

Questions?

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