

## 14.75 Economic Development

Victor Lavy

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### • Administration

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- Course Website: <http://web.mit.edu/14.75J/www/>

### • Course description

A fifth of the world's population lives in the richest countries and accounts for 65% of the world's consumption expenditures; the half that lives in the poorest countries accounts for only 15%. Almost a quarter of the world's population, 1.3 billion people, survives on incomes of less than one dollar per day. These differences between countries pose a mystery. Why are some so rich and others so poor? Does it have to be this way? Are there factors that we can point to and perhaps change that lead to these enormous gaps? The first part of this course will use economic theory and evidence from low and high-income countries to examine these questions. The second part of the course will address several structural weaknesses in the function of markets in poor countries, focusing on the agriculture sector and the markets for land, labor, credit and insurance. We will conclude with two important micro household issues, the role of the family and intra-household distribution of resources in poor economies.

### • Prerequisites

The course covers both empirical and theoretical material. For each topic we will study several examples from across the world. A statistics course is a prerequisite. Econometrics is not a prerequisite for this class, but you will be expected to be willing to familiarize yourself with basic econometrics methods. The relevant material will be covered in the class and in recitations.

### • Requirements

There will be 5-7 problem sets, due a week or two after it is handed out. Each problem set will contain one empirical exercise. In the first few recitations you will learn how to use STATA to do these exercises. The midterm and final exam will be in class – the midterm will be on October 23rd and final exam on December 4. In the last week of the semester I will lecture for half the class and

students will present (in groups) empirical findings for the last half hour. The problems sets (this includes the class presentation) will count towards 50 percent of the final grade and the midterm and final exams 25 percent each.

### • Text and Readings

Much of the lectures notes in the first part of the course will draw material from a forthcoming book (not available yet) by David Weil, Economic Growth. The second part of the course will be based on Debraj Ray's Development Economics. We will also rely on articles and a reading packet will be available at Copy Tech (in the basement of E52). Additional readings will either be made available in class or on the website. You are not expected to read every article in detail, but you are expected to understand how authors reach their conclusion.

### • Syllabus

#### 1. Introduction:

- Income and development differences between countries.
- Overtaking, convergence, and divergence.
- Vicious circle of poverty.

Ray Ch. 1-2, 276-279, Costa (2000).

#### 2. Physical capital accumulation, development and growth:

- The nature of capital and its role in production
- The Solow growth model.
- The relationship between investment and saving.

Ray ch. 3.

#### 3. Population and economic development

- The Malthusian model.
- Population growth in the Solow model.
- Explaining population growth, mortality and fertility transitions.
- The demand for children: substitution and income effect.

Ray ch. 9. Rosenzweig (1990, ?)

#### 4. Human capital and economic development

- Human capital in the form of health.
- Human capital in the form of education.
- How much of the variation in income across countries is explained by education? .

- School quality and externalities.

- A quality-quantity model of fertility and education.

Ray ch. 8, Strauss and Thomas (1998), Kremer and Miguel (2002), Hanushek and Kimko (2000), Duflo (2001).

#### 5. Productivity, economic growth and development

- Productivity in the production function.

- Development accounting and measuring productivity differences.

- Growth accounting and the contribution of productivity to growth.

Acemoglu and Zilibotti (2001), Kremer (1990).

#### 6. The role of technology and efficiency in growth and development

- Technical progress and the transfer of technology.

- Modeling the relation between technology creation and growth and development.

- Barriers to technology transfer to developing countries.

- Decomposing productivity into technology and efficiency.

Ray ch. 4, Kremer (1990), Jones (1995).

#### 7. Inequality and development interactions

- Income inequality: the facts.

- Sources of income inequality.

- The effect of inequality on economic growth.

- Beyond income distribution: economic mobility.

Ray ch. 6-7,

#### 8. Fundamentals determinants of economic development

- Government.

- Institutions

- Culture.

- Natural resources.

Acemoglu, Johnson, and Robinson (2001); Banerjee and Iyer (2002),

#### 9. Markets in agriculture sector: land, ownership and tenancy, rental contracts and sharecropping.

Ray ch. 11-12, Besley (1995), Banerjee (1999), Besley and Burgess (2000).

#### 10. Labor markets.

Ray ch 10, Rosenzweig (1980).

11. Credit, formal and informal markets, credit rationing.  
Ray ch. 14, Aleem (1990), Morduch (2001), Paxson (1992), Rosenzweig and Wolpin (1993), Foster (1995).
12. Insurance.  
Ray ch. 15, Udry (1990), Deaton (1997), pp 372-383.
13. The role of the family.  
Rosenzweig (1988), Vijayendra (1993).
- 14 . Household structure and the intra-household distribution of resources.  
Pitt, Rosenzweig and Hassan (1990), Udry (1996), Duflo and Udry (2001).

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