

# Course Book

## Growth and Development

Summer Term 2017

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### 1. General information

#### 1.1 Course contents

Whereas for a long time Europe and its off-shots dominated worldwide economic growth, more recently East Asia, followed by South-East Asia, China, India and Brazil, among others, have experienced the highest rates of economic growth. However, other parts of the world still lag behind or show at least not more than modest signs of growth. This lecture will reflect on the history of long-run growth, discuss alternative theories that try to provide explanations for the contrasting dynamics and examine empirical research testing the validity of the various approaches. The resulting policy implications are debated in depth. Particular topics that are discussed in this context are the role of geography versus institutions, the relevance of poverty traps, the role of trade openness, as well as the effectiveness of development aid.

#### Chapter overview

- Chapter 1: What do we mean by growth and development?
- Chapter 2: The history of growth and underdevelopment
- Chapter 3: Alternative approaches to long-run development
- Chapter 4: Classic theories of economic development
- Chapter 5: Contemporary models of development and underdevelopment
- Chapter 6: When does trade enhance growth?
- Chapter 7: Is it geography or institutions?
- Chapter 8: Does aid enhance development?
- Chapter 9: Is Sub-Saharan Africa industrializing?

## 1.2 Aims of the course

- To provide participants with the theoretical foundations of various approaches to economic growth.
- To equip participants with the basic techniques and concepts to analyse statistically growth and to test alternative theories.
- To allow participants to grasp the core implications of one theory versus another and to derive from that the contrasting policy implications.
- To get an overview over some of the main debates in development.

## 1.3 Prior knowledge

An understanding of intermediate macro-economics and basic quantitative-statistical analysis is required.

## 1.4 Credits and workload

Course credits: 5 ECTS-LP (2SWS).

	<b>Contact hours</b>	<b>Self-study</b>
Lecture	28h	40h
Tutorial	26h	32h
(Preparation) final exam	1.5	22h
Total	150h	

## 1.5 Inscription and contact

Inscriptions via StudIP.

For questions related to the administration of this course, please contact:

Christiana Augsburg  
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For questions related to the content of this course, please contact:

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## 2. Course Set-up

### 2.1 Organization

Lecture, class-room discussions, tutorials (Übung). The tutorial discusses problem sets and allows for a general Q&A.

### 2.2 Scheduling

#### Lecture:

##### *Block I*

- (1) Wednesday, 3 May 2017, 17:15 – 19:30 (including 15 min break), Room: (ISA) SR 007
- (2) Thursday, 4 May 2017, 16:15 – 18:30 (including 15 min break), Room: (ISA) SR 008
- (3) Friday, 5 May 2017, 10:15 – 11:45 & 14:15 – 15:45, Room: (PHIL) HS 3

##### *Block II*

- (4) Wednesday, 17 May 2017, 17:15 – 19:30 (including 15 min break), Room: (ISA) SR 008
- (5) Thursday, 18 May 2017, 16:15 – 18:30 (including 15 min break), Room: (ISA) SR 008
- (6) Friday, 19 May 2017, 10:15 – 11:45 & 14:15 – 15:45, Room: (PHIL) HS 3

##### *Block III*

- (7) Wednesday, 21 June 2017, 17:15 – 19:30 (including 15 min break), Room: (ISA) SR 007
- (8) Thursday, 22 June 2017, 16:15 – 18:30 (including 15 min break), Room: (ISA) SR 008
- (9) Friday, 23 June 2017, 10:15 – 11:45 & 14:15 – 15:45, Room: (PHIL) HS 3

#### Tutorial:

First tutorial: Wednesday, 26 April 2017, 10:00 -12:00 (c.t.) (Group 1), or Thursday, 27 April 2017, 10:00-12:00 (c.t.) (Group 2)

Last tutorial: Wednesday, 26 July 2017, 10:00-12:00 (c.t.) (Group 1), or Thursday, 27 July 2016, 10:00-12:00 (c.t.) (Group 2)

Room: (JUR) SR 147a

#### Exam:

At the end of the term (exact date and location to be announced)

### 2.3 Grade components

Final written exam, 90 min (100%).

### 2.4 Course material

- Readings
- Presentation slides (lecture notes)
- Problem sets (tutorial/exercises)

### 3. Detailed outline of the course

**Chapter 1:     *Introduction: What do we mean by growth and development?***

**Recommended readings**

- Todaro Michael P. and Stephen C. Smith (2011). *Economic Development* (11<sup>th</sup> edition). Essex: Pearson. Chapter 1.

**Chapter 2:     *The history of growth and underdevelopment***

- Income differences across countries
- Differences in growth rates across countries
- Convergence and divergence
- Long run development and current dynamics
- Inequality and poverty

**Required readings**

- Weil, David N. (2013). *Economic Growth* (3<sup>rd</sup> edition, international edition). Boston: Pearson Education. Chapter 1.

**Further references**

- Bourguignon, François and Christian Morrison (2002). Inequality among World Citizens: 1820-1992. *American Economic Review* 92 (4): 727-744.
- Chen, Shaohua and Martin Ravallion (2012). More Relatively-Poor People in a Less Absolutely-Poor World. World Bank Policy Research Working Paper 6114. Washington D.C.: The World Bank.
- Maddison, Angus (2010). *The World Economy: A Millennial Perspective*. Reprint. OECD Development Centre Studies. Paris: OECD.

### **Chapter 3: *Alternative approaches to long-run development***

- A description of world development over the past 1000 years
- Conquest and settlement
  - International trade and capital movements
  - Technological and institutional innovation
- Geographic factors shaping development
- Institutional factors shaping development

#### **Required readings**

- Maddison, Angus (2010). *The World Economy: A Millennial Perspective*. Reprint. OECD Development Centre Studies. Paris: OECD. Introduction and Summary.

#### **Further references**

- Diamond, Jared (1997). *Guns, Germs and Steel: The Fates of Human Societies*. New York: W. W. Norton & Company. [also available in German]
- Maddison, Angus (2010). *The World Economy: A Millennial Perspective*. Reprint. OECD Development Centre Studies. Paris: OECD. Chapter 2: The Impact of Western Development on the Rest of the World, 1000-1950.

### **Chapter 4: *Classic theories of economic development***

- Rostow's Stages of Growth
- The Lewis Theory of Development
- The International-Dependence Revolution
- The Neoclassical Counterrevolution: Market Fundamentalism
- Neoclassical Growth Theory – The Solow Model
- Empirical validation
- Solow-model augmented by human capital

#### **Required readings**

- Todaro, Michael P. and Stephen C. Smith (2011). *Economic Development* (11<sup>th</sup> edition). Essex: Pearson. Chapter 3 (pages 109-136).
- Weil, David N. (2013). *Economic Growth* (3rd edition, international edition). Boston: Pearson Education. Chapters 2, 3 and 4 (pages 94-99), chapter 6 (pages 171-175).

#### **Further references**

- Mankiw N. Gregory, David Romer and David N. Weil (1992). A Contribution to the Empirics of Economic Growth. *Quarterly Journal of Economics* 107(2): 407-437.
- Solow, Robert M. (1956). A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics* 70(1): 65-94.

### **Chapter 5: *Contemporary models of development and underdevelopment***

- New Growth Theory: Endogenous Growth
- Underdevelopment as a Coordination Failure
- Starting Economic Development: The Big Push
- Further Problems of Multiple Equilibria: Poverty Traps

**Required readings**

- Todaro M.P. and S.C. Smith (2011), Economic Development. 11th edition, Pearson: Essex. Chapter 3 (pages 152-153), chapter 4 (pages 155-175).
- Weil D. (2005), Economic Growth, Boston: Pearson Education. Chapters 7 (pages 182-204).

**Further references**

- Easterly, W. (2006), Reliving the 1950s: the big push, poverty traps, and takeoffs in economic development, *Journal of Economic Growth*, 11(4): 289-318.
- Murphy K.M., A. Shleifer and R.W. Vishny (1989), Industrialisation and the Big Push. *Journal of Political Economy*, 97 (5): 1003-26
- Sachs, J. (2005), *The End of Poverty: Economic Possibilities for Our Time*. Penguin Group, 416pp.
- Weil D. (2005), *Economic Growth*, Boston: Pearson Education. Chapters 8, 9 and 10.

**Chapter 6: *When does trade enhance growth?***

- The measurement of openness and growth of world trade
- Ricardian trade theory
- Neo-classical theory of trade (Heckscher-Ohlin)
- Criticism to the neo-classical trade model and Prebisch-Singer Hypothesis
- Transmission channels linking openness and growth: capital accumulation
- The growth effect of openness: Empirical evidence
- Conclusion/ The arguments of the anti-globalization camp

**Required readings**

- Weil D. (2005), *Economic Growth*, Boston: Pearson Education. Chapter 11.

**Further references**

- Todaro M.P. and S.C. Smith (2011), *Economic Development*. 11th edition, Pearson: Essex. Chapter 12.

**Chapter 7: *Is it geography or institutions?***

- The Debate: two competing hypotheses
- Variables and data sets
- Results
- Further evidence

### **Required readings**

- Easterly, W. and R. Levine (2003), Tropics, germs, and crops: the role of endowments in economic development, *Journal of Monetary Economics*, 50, 3-39.

### **Further references**

- Acemoglu, D., S. Johnson and J.A. Robinson (2005), Institutions as the Fundamental Cause of Long Run Growth. In P. Aghion and S. Durlauf (eds.) *Handbook of Economic Growth*, Amsterdam: Elsevier North Holland.
- Acemoglu, D. and J.A. Robinson (2011), *Why Nations Fail: Origins of Power, Poverty and Prosperity* (also available in German).
- Gallup J.L., J.D. Sachs and A.D. Mellinger (1998), *Geography and Economic Development*. NBER Working Paper 6849, NBER Cambridge, MA.
- Weil D. (2005), *Economic Growth*, Boston: Pearson Education. Chapters 12 and 15.

## **Chapter 8: Does aid enhance development?**

- Introduction
- Why do some countries give development aid
- Cross-country analysis of aid effectiveness
- Side-effects of aid
- The rise of non-Western donors
- Conclusion

### **Required readings**

- Alesina, Alberto and David Dollar (2000). Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth* 5(1): 33-63.

### **Further references**

- Burnside, Craig and David Dollar (2000). Aid, Policies and Growth. *American Economic Review* 90(4): 847-868.
- Dreher, Axel, Andreas Fuchs and Peter Nunnenkamp (2013). New Donors. *International Interactions* 39(3): 402-415.
- Easterly, William (2003). Can Foreign Aid Buy Growth? *Journal of Economic Perspectives* 17(3): 23-48.
- Kuziemko, Ilyana and Eric Werker (2006). How much is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations. *Journal of Political Economy* 114(5): 905-930.

## **Chapter 9: Is Sub-Saharan Africa industrializing?**

- The 'African growth dummy'
- Africa's recent growth performance
- Drivers of Africa's growth and regional differences
- Africa's growth and poverty reduction
- Sustainability of Arica's development

**Required readings**

- Rodrik, D. (2014), An African Growth Miracle? NBER Working Paper #20188, NBER, Boston, M.A. [<http://www.nber.org/papers/w20188>]

**Further references**

- Arbache J.S. and J. Page (2008), Hunting for Leopards. Long Run Country Income Dynamics in Africa. World Bank Policy Research Working Paper #4715, World Bank, Washington D.C.
- OECD (2013), African Economic Outlook – Structural Transformation and Natural Resources, OECD. [[http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/AEO\\_versions/AEO2013\\_EN.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/AEO_versions/AEO2013_EN.pdf)]
- Pinkovskiy, M. and X. Sala-i-Martin (2010), African Poverty is Falling... Much Faster than You Think! Mimeo, Columbia University [[http://www.columbia.edu/~xs23/papers/pdfs/Africa\\_Paper\\_VX3.2.pdf](http://www.columbia.edu/~xs23/papers/pdfs/Africa_Paper_VX3.2.pdf)].