MACROECONOMICS AND SUSTAINABLE DEVELOPMENT

Course Number: U9602
Spring 2006
Lectures: Thursdays 4:10 PM – 6:00 PM (IAB 404)
Discussion: Sessions Mondays 4:10 PM – 6:00 PM (IAB 410)

Instructor
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The course will meet once a week in lectures (on Thursdays) and once a week in discussion sessions (on Mondays) with the teaching associate. Problems will be assigned approximately once every two weeks. A midterm examination will be held approximately in the eighth week. There will be a final cumulative examination at the end of the course. The course grade will be based on following weights:

- Problem assignments 20%
- Midterm 30%
- Final 50%

Lectures will focus on topics related to macroeconomics of development while discussion sessions will aim, first, at providing the basics of macroeconomic tools and, secondly, on supplementing the lectures.

PREREQUISITES
Undergraduate calculus, undergraduate macroeconomics, and PhD level microeconomics.

SCHEDULE
Lecture 1: January 19
Introduction: What is the course about? What are the principal macroeconomic issues of development? Why developing country macroeconomics differs from developed country macroeconomics? Macroeconomic accounting (to be continued in lecture 2).

Discussion Session 1: January 23
The Standard Keynesian Model.

Lecture 2: January 26
Basic macroeconomic accounting: national income accounting. Special problems of national income accounting in developing countries.
Discussion Session 2: January 30
Open Economy (Mundell-Fleming) Model.

Lecture 3: February 2
Economic growth: Growth models as tools for analyzing the macroeconomics of development. The classical model and the Harrod-Domar model.

Discussion Session 3: February 6
The analytics of the Neoclassical Growth model and the New Growth Theories (I).

Lecture 4: February 9
Growth models as tools for analyzing the macroeconomics of development (continued): the Neoclassical Growth model and the New Growth Theories.

Discussion Session 4: February 13
The analytics of the Neoclassical Growth model and the New Growth Theories (II).

Lecture 5: February 16
Macroeconomic stability and growth in developing countries. An analysis of inflation and unemployment in developing countries. Growth and stabilization in recent development experience.

Discussion Session 5: February 20
The Overlapping Generations Model.

Lecture 6: February 23
Alternative development strategies: The historical experience of import substituting industrialization (ISI) in the post-World War II period.

Discussion Session 6: February 27
Supplements to growth models, review for the midterm

Lecture 7: March 2
Alternative development strategies: The neoclassical critique of the ISI model. The neoclassical alternative.

Discussion Session 7: March 6
Midterm

Lecture 8: March 9
Alternative development strategies: The East Asian experience.

Discussion Session 8: March 20
Trade and growth
Lecture 9: March 23
Poverty: The nature and dimensions of poverty in the developing world. The measurement issues.

Discussion Session 9: March 27
Poverty: The nature and dimensions of poverty in the developing world. The measurement issues.

Lecture 10: March 30
Growth and poverty alleviation; growth-inequality-poverty nexus.

Discussion Session 10: April 3
Growth and poverty alleviation; growth-inequality-poverty nexus.

Lecture 11: April 6
Macroeconomic policies and their effect on poverty: an analysis of contemporary experience in developing countries.

Discussion Session 11: April 10
Balance of payments crises (collapse of pegged exchange rate regimes, financial panics), Stabilization from high inflation

Lecture 12: April 13
The integration of the developing world into the on-going globalization: trade liberalization; the liberalization of the capital account; foreign direct investment; and international factor movement.

Discussion Session 12: April 17
Environment, resource depletion and growth, empirical evidence on economic growth and convergence

Lecture 13: April 20
The macroeconomic consequences of globalization on the Developing world; the outcome in terms of growth, distribution and poverty reduction.

Discussion Session 13: April 24
The macroeconomic consequences of globalization on the Developing world; the outcome in terms of growth, distribution and poverty reduction.

Lecture 14: April 27
Summing up: The major policy issues.

Discussion Session 14: May 1
Review for the final exam
READINGS
(The list is incomplete and will be supplemented later and in lectures and discussion sessions. Where an entire book is cited without chapter specification, the students are urged to skim fast the whole book.)

General Texts

(*: Required texts)

Macroeconomics

Macroeconomics and Development

Development

Open Economy Macroeconomics
Readings for Each Session
(∗: Required readings)

(The course reserve in the Business Library at Uris Hall has some books. See the Courseworks for an electronic version of journal articles.)

Lecture 1 – January 19
Introduction: What is the course about? What are the principal macroeconomic issues of development? Why developing country macroeconomics differs from developed country macroeconomics? Macroeconomic accounting (to be continued in lecture 2).

∗McKinley, Terry (editor), Macroeconomic Policy, Growth and Poverty Reduction, Palgrave, 2001 (Chapter 1 & 6).
∗RAY (Chapter 2)
Stiglitz, J.E., Globalization and Its Discontents.

Discussion Session 1 – January 23
The Standard Keynesian Model.

Session note

Lecture 2 – January 26
Basic macroeconomic accounting: national income accounting. Special problems of national income accounting in developing countries.

BRS Chapter 1.
Discussion Session 2 – January 30
Open Economy (Mundell-Fleming) Model.

Krugman, Paul and Maurice Obstfeld, International Economics, (chapters 12-17, 19, 21-22)
Obstfeld, Maurice and Kenneth S. Rogoff, Foundations of International Macroeconomics
(chapters 4-6 and 8-10)
*Romer, David, Advanced Macroeconomics, Chapter 10, “Inflation and Monetary Policy”
Do We Know? What Do We Need to Know”, NBER Working Paper 7228, 1999
Greenwald, Bruce. "International Adjustment in the Face of Imperfect Financial Markets". 

Lecture 3 - February 2
Economic growth: using the Harrod-Domar model to analyze the macroeconomics of
development.

BRS, Appendix to Chapter 5.
*Hicks, J.R., Capital and Growth, Chapter 4.
*RAY Chapter 3

Discussion Session 3 – February 6
The analytics of the Neoclassical Growth model and the New Growth Theories (I). 
Growth models in an open economy, with international borrowing and lending

*B&S Chapter 1, 2. 3
BRS Chapter 5
Sachs Jeffrey D. "The Current Account in the Macroeconomic Adjustment Process,"
Sachs Jeffrey D. “Theoretical issues in international borrowing”, Princeton Studies in 
International Finance 54, 1984

**Lecture 4 – February 9**
The use of the Neoclassical Growth model and the New Growth Theories in analyzing the macroeconomics of development.

Aghion, Phillippe and Peter Howitt, Endogenous Growth Theory, MIT Press, 1997

*B&S Chapters 4-5
*RAY Chapter 3

**Discussion Session 4 – February 13**
The analytics of the Neoclassical growth Model and the New Growth Theories (II).

*B&S Chapter 3, 4

**Lecture 5 – February 16**
Macroeconomic stability and growth in developing countries. An analysis of inflation and unemployment in developing countries. Growth and stabilization in recent development experience.


*Stiglitz, J.E., Globalization and Its Discontents.


**Discussion Session 5 – February 20**
The Overlapping Generations Model.

B&S Chapter 3 Appendix
Blanchard and Fischer, Macroeconomics, MIT Press, Chapter 3

**Lecture 6 – February 23**
Alternative development strategies: The historical experience of import substituting industrialization (ISI) in the post-World War II period.


Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries.


Lance Taylor, “Structuralist and Competing Approaches to Development Economics”, in Dutt and Jameson (Editors), New Directions in Development Economics.

**Discussion Session 6 – February 27**
Growth in open economy, technology spillovers, review for the midterm.

B&S Chapter 8

**Lecture 7 – March 2**
Alternative development strategies: The neoclassical critique of the ISI model. The neoclassical alternative.

*Ian Little, Economic Development: Theory, Policy and International Relations.


Anne Kreuger, Foreign Trade Regimes and Economic Development: Liberalization Attempts and Consequences.


*World Bank, The East Asian Miracle.

The Asian Development Bank, Emerging Asia: Changes and Challenges.

**Discussion Session 7 – March 6**
Midterm

**Lecture 8 – March 9**
Alternative development strategies: The East Asian experience.

Chang, H-J., Kicking Away the Ladder - Development Strategy in Historical Perspective, Anthem Press, 2002

Crafts, Nicholas, "East Asian Growth Before and After the Crisis," *IMF Staff Papers*, 46(2), June 1999, 139-166


**Discussion Session 8 – March 20**

Trade and growth


**Lecture 9 – March 23 (Wed)**

Poverty: The nature and dimensions of poverty in the developing world. The measurement issues.


Wade, Robert, Is globalization reducing poverty and inequality?, World Development April 2004

Discussion Session 9 – March 27
Poverty: The nature and dimensions of poverty in the developing world. The measurement issues.


Lecture 10 - March 30
Growth and poverty alleviation; growth-inequality-poverty nexus.

See list of references under Lecture 9.

Discussion Session 10 – April 3
Growth and poverty alleviation; growth-inequality-poverty nexus.


Lecture 11 – April 6
Macroeconomic policies and their effect on poverty: an analysis of contemporary experience in developing countries.

(Chapters 5, 8)

UNDP country case studies on macroeconomic policies and poverty (details to be supplied)

Discussion Session 11 – April 10
Balance of payments crises (collapse of pegged exchange rate regimes, financial panics), Stabilization from high inflation

Krugman and Obstfeld Chapter 23

Lecture 12 – April 13
The integration of the developing world into the on-going globalization: trade liberalization; the liberalization of the capital account; foreign direct investment; and international factor movement.


*Stiglitz, J. E., Globalization and Its Discontents.

Discussion Session 12 – April 17
Environment, Resource depletion and growth, Empirical evidence on economic growth and convergence, trade and growth

*B&S (Chapter 12)

Lecture 13 – April 20
The macroeconomic consequences of globalization on the Developing world; the outcome in terms of growth, distribution and poverty reduction.

Stiglitz, J. E., Globalization and Its Discontents.
*UNDP, Human Development Report 1999 (including two volumes of Background Papers)

Discussion Session 13 – April 24
The macroeconomic consequences of globalization on the Developing world; the outcome in terms of growth, distribution and poverty reduction.


Lecture 14 – April 27
Summing up: The major policy issues.

Discussion Session 14 – May 1
Review for the final exam.