

Current Thinking in Development Economics

Seminar Announcement

Master in International Economics and Public Policy (MIEPP)

Summer Semester 2014

1 Introduction

Development is multifaceted and all encompassing. It goes beyond income and looks at the various aspects that entail a good quality of life such as a sustainable ability to feed oneself, access to education and health, as well as being able to have freedom of choice. In studying development, the main objectives are usually to understand how to classify countries into categories such as developed and developing. Once this has been accomplished, the next and perhaps the most onerous task will be to understand why certain countries are more developed than others. This seminar is concerned with the latter. In the effort to answer the second question, academicians have looked at several strands of development, with each addressing very specific issues and look at their effect on development. Of importance is that while the different strands have different effects on the development process, it is the interaction of all the different aspects that make up the development process and it is therefore important to understand the various aspects.

The objective of this seminar is therefore to (i) get an overview of the different topics in development economics, (ii) look at the academic contributions to the various strands on the discourse on development, and (iii) analyse these aspects of development economics as relates to the developing economies.

2 Seminar Overview

The seminar, as per the objectives as outlined above, will look at the following topics:

2.1 Defining Development Economics

The seminar begins with an overview of development. We begin by looking at the conceptual issues in development such as poverty and inequality, as well as what constitutes the human development indicators. The human development index (UNDP, 2011) will be briefly introduced as we look at the components for the HDI such as health, education and population growth. For the conceptual issues in development economics, we look specifically at inequality with the reference paper for discussion by Angeles (2007).

Secondly, we look at the stylized facts in economic growth and development. Over the years, there have been differences and changes in income and output between and within countries. While there has been a general upward trend, the gap in income and output between developed and developing countries has been increasing. At the same time, the quality of life for those in developed countries continue to differ significantly from that of individuals in developing countries as indicated by level of education, health indicators as well as the level of per capital income. In looking at how the distribution of income has changed over the years, the reference paper by Sala-i-Martin (2006) will be used.

2.2 Strands of development economics in academic discourse

2.2.1 Geography, Institutions, and Development

One of the theories that has been advanced for development, or lack thereof, is geography. It has been argued that the geography of a country will affect its access to markets and therefore the level of income. Other proponents (Gallup, Sachs and Mellinger; 1999) argue that climate differences experienced in different geographic locations also affect economic development through its effect on agriculture and health. The discussion paper for geography and development will be Redding and Venables (2004), which follows the former argument.

There have, however, been opponents of the geography debate. One such notable argument that has been advanced against the geography debate, is the institution debate. The argument goes that it is economic policies that shape economic performance and thus determine the course of development. But economic policies come from economic institutions and economic institutions are largely influenced by political institutions and regimes. It has been argued that for examples, changes in political regimes affect political institutions which in turn ultimately affects the economic institutions and thus economic policy. This section therefore follows the debate on institutions. Among the prominent discussion emerging from this was the Acemoglu et al (2003) study which found that institutions were likely the problem underlying bad macroeconomic policies. The paper discussed in this section will be by Daron Acemoglu and James A. Robinson (2008), which, interestingly, counters the idea that a change in regime results in institutional changes for political and economic institutions, but rather that despite changes in regimes, institutions tend to continue to flourish as they are.

2.2.2 Psychology and Development

Traditionally, economics has assumed that human beings are rational and therefore decision making is arrived at in a logical rational manner. However, psychology records evidence to the contrary. There is an emerging literature in economics that incorporates the evidence from psychology to better understand human behaviour in the decision making process. The discussion papers in this

section will be Kaur, S., Kremer, M. and Mullainathan, S. (2010) and Banerjee and Mullainathan (2008).

2.2.3 Aid and Development

This section follows the aid debate. We begin with Burnside and Dollar (2000) which is perhaps one of the most prominent papers on the aid discourse. The paper looks at foreign aid, economic policies and growth. They find a positive effect of aid on economic growth. From this paper came several discussions on the effect of aid on economic growth as well as what was the importance of the role of institutions on development. One of the most prominent opponents that ensued from this debate on aid was William Easterly. We therefore look at the reference paper from William Easterly (2007). William Easterly looks at aid to developing countries as based on three assumptions. He finds that aid has not worked as it should have in the development process.

2.2.4 Dead Aid: Why aid is not working and how there is another way for Africa

In the book 'Dead Aid', Dambisa Moyo (2009) analyses the origins of aid, why aid has not worked for Africa and then proposes solutions for development in Africa. Dambisa Moyo suggests that aid has not worked for Africa because it is made continuously available as the only solution to the development problem on the continent, with lack of accountability. Among the solutions she offers, is that aid should be done away with gradually, and African governments borrow instead from financial markets as this would create accountability. Our reference for this section is Dambisa Moyo (2009), 'Dead Aid: Why aid is not working and how there is another way for Africa'.

2.3 Development Economics: Conclusions

We conclude by looking at evidence from experiments carried out in developing countries. Our reference paper is by Duflo, Dupas and Kremer (2011), who analyse the impact of teacher tracking on students in western Kenya. Through a randomized evaluation, they find that when incentivised, teacher tracking improves performance for both strong and weak students, since both benefit as teachers teach at their level.

3 Seminar Topics

1. Conceptual Issues in Development Economics: Reference by Angeles (2007)
2. Stylized Facts: Reference by Sala-i-Martin (2006)
3. Geography and Development: Reference by Redding and Venables (2004)

4. Institutions and Development: Reference by Acemoglu et al (2003) and Acemoglu and Robinson (2008)
5. Psychology and Development: Reference by Kaur, Kremer and Mullainathan (2010)
6. Psychology and Development: Reference by Banerjee and Mullainathan (2008)
7. Aid and Development: argument for aid. Reference by Burnside and Dollar (2000)
8. Aid and Development: argument against aid. Reference by William Easterly (2007)
9. Dead Aid: Why aid is not working and how there is another way for Africa, Dambisa Moyo (2009)
10. Development Economics: Conclusions - Reference by Duflo, Dupas and Kremer (2011)

References

- [1] Acemoglu, D. and Robinson, J. A. (2012). *Why Nations Fail. The origins of power, prosperity and poverty.* Profile Books Limited, London.
- [2] Acemoglu, D. and Robinson, J. A. (2008). Persistence of power, elites and institutions. *American Economic Review*, Vol. 98, No. 1, 267 - 293
- [3] Acemoglu, D., Johnson, S., Robinson, J. A. and Thaicharoen, Y. (2003). Institutional causes, macroeconomic symptoms: volatility, crises and growth. *Journal of Monetary Economics*, Vol. 50, 49 - 123
- [4] Angeles, L. (2007). Income inequality and colonialism. *European Economic Review*, Vol. 51, 1155 - 1176
- [5] Banerjee, A. V. and Mullainathan, S. (2008). Limited Attention and Income Distribution. *American Economic Review: Papers and Proceedings*, Vol. 98, No. 2, 489 - 493
- [6] Burnside, C. and Dollar, D. (2000). Aid, Policies and Growth. *American Economic Review*, Vol. 90, No. 4, 847 - 868
- [7] Duflo, E., Dupas, P. and Kremer, M. (2011). Peer effects, teacher incentives and the impact of tracking: Evidence from a randomized evaluation in Kenya. *American Economic Review*, Vol. 101, No. 5, 1739 - 1774
- [8] Easterly, William. (2007). Was development assistance a mistake? *American Economic Review: Papers and Proceedings*, Vol. 97, No. 2, 328 - 332
- [9] Easterly, William. (2006). *The white man's burden: why the west's effort to aid the rest have done so much ill and so little good.* The Penguin Press, New York.
- [10] Gallup, J. L., Sachs, J. D. and Mellinger, A. D. (1999). Geography and Economic Development. *International Regional Science Review*, Vol. 22, No. 2, 179 - 232
- [11] Kaur, S., Kremer, M. and Mullainathan, S. (2010). Self-control and development of work arrangements. *American Economic Review: Papers and proceedings*, Vol. 100, No. 2, 624 - 628
- [12] Moyo, D. (2009). *Dead Aid. Why aid is not working and how there is another way for Africa.* Allen Lane, Penguin Group, London, England.
- [13] Redding, S. and Venables, A. J. (2004). Economic Geography and International Inequality. *Journal of International Economics*, Vol. 62, No. 1, 53 - 82
- [14] Sala-i-Martin, X. (2006). The world distribution of income: Falling poverty andconvergence, period. *Quarterly Journal of Economics*, Vol. 121, Issue 2.

- [15] Shafir, E. and Mullainathan, S. (2013). Scarcity: why having too little means so much. Allen Lane, Penguin Group, London, England.