



AMERICAN UNIVERSITY
WASHINGTON, D C

Department of Economics

ECON-363.01
Macroeconomics of Development

Spring 2009
Larry Sawers

January 14

Office: Roper Hall 214; telephone: 885-3766; email lsawers@american.edu
Office hours: Tuesdays 12:00–4:00 and Wednesdays after class.
Classroom: Ward 107

Syllabus

Objectives

This course is concerned with the macroeconomics of economic development. The focus of the course will be an exposition and evaluation of the practice of economic development policy since World War II. Topics will include exchange rate determination, international trade and the balance of payments, and fiscal and monetary policy. We will trace the interplay of the theory and the practice of economic development from the state-led, import-substituting industrialization that was the dominant development paradigm in the 1950s and 1960s, to the rise of dependency analysis in the 1960s and neostructuralism of the 1970s, the resurgence of market-oriented policies in the 1980s, the ‘second generation’ reforms of the 1990s, and the current questioning of free market economics.

Reading Assignments

1. *Paradigms of Development Economics (January 14 and 21)*

Larry Sawers, (2009) “The Invention of Development Economics,” Chapter Two, and “Changing Paradigms in Economic Development,” Chapter Three, *Economic Development Policy*.

Sanjaya Lall, (1975) “Is ‘Dependence’ a Useful Concept in Analyzing Underdevelopment?” *World Development* **3** 11–12, 799–810.

Moises Naim, 1999 “Fads and Fashion in Economic Reforms: Washington Consensus or Washington Confusion?” Working Draft of a Paper Prepared for the IMF Conference on Second Generation Reforms, Washington, D.C.

Dani Rodrik, 2006 “Goodbye Washington Consensus, Hello Washington Confusion,” working paper, Harvard University, January, pages 1–16 and skim the rest..

John Williamson, (2003) “The Washington Consensus and Beyond,” Working Paper, Institute for International Economics, Washington.

4. ***Exchange Rate Determination and Policy (January 28, February 4 and 11)***

Larry Sawers, (2009) “Exchange Rate Policy,” Chapter Four, *Economic Development Policy*.

John Williamson, (2000) “Designing a Middle Way between Fixed and Flexible Exchange Rates,” Institute for International Economics, A paper presented to a conference on “Monetary and Exchange Rate Policies: Options for Egypt” Egyptian Center for Economic Studies Cairo, Egypt November 19-20. <http://www.iie.com/publications/papers/williamson1100.htm>

Guillermo A. Calvo and Frederick S. Mishkin, (2003) “The Mirage of Exchange Rate Regimes for Emerging Market Economies,” *Journal of Economic Perspectives* 17 No. 4, 99–118. Pay special attention to the first three pages; skim the rest.

First Exam February 11

3. ***Stabilization: How to Fix Inflation (February 18 and 25)***

Larry Sawers, (2009) “Inflation and Stabilization,” Chapter Five, *Economic Development Policy*.

Kenneth Rogoff, (2003) “Globalization and Global Disinflation,” International Monetary Fund, <http://www.imf.org/external/np/speeches/2003/082903.htm#top>.

Christina Romer and David Romer, (1999) “Monetary Policy and the Well Being of the Poor,” *Economic Review*, Federal Reserve Bank of Kansas City, First Quarter: 21–49.

Additional Reading:

Easterly, W. and Fischer, S. (2001). “Inflation and the Poor,” *Journal of Money, Credit and Banking*, 33(2): 160–178.

4. ***Trade Liberalization (February 25 and March 4)***

Larry Sawers, (2009) “ISI and Trade Liberalization,” Chapter Six, *Economic Development Policy*.

Anne Krueger, (1997) “Trade Policy and Economic Development: How We Learn,” *American Economic Review*, 87, 1–22.

Henry Bruton, (1998) “A Reconsideration of Import Substitution,” *Journal of Economic Literature* 36 2, 903–936.

Dani Rodrik, (2001) “Trading in Illusions,” *Foreign Policy*, March–April, 55–62.

Additional Readings:

Robert Blecker, (2000) “Diminishing Returns to Export Led Growth,” Council on Foreign Relations.

Larry Sawers (2005) “Nontraditional or New Traditional Exports: Ecuador's Flower Boom,” *Latin American Research Review* **40** No. 3, 40–67. (This is a case study of how changes in the policy regime affected a nontraditional export industry.)

Larry Sawers (2006) “Sustainable Floriculture in Ecuador,” *International Journal of Economic, Social, and Environmental Sustainability*, **1** No. 2, 3–9, 2006. (See especially the section on Cultural and Social Sustainability.)

Sebastian Edwards, (1993) “Openness, Trade Liberalization, and Growth in Developing Countries,” *Journal of Economic Literature* **31**, 1358–1393.

Sebastian Edwards, (1997) “Trade Liberalization Reforms and the World Bank,” *American Economic Review* **87**, 43–48.

7. Financial Market Liberalization (March 18)

Larry Sawers, (2009) “Finance and Economic Development,” Chapter Seven, *Economic Development Policy*.

Sergio Schmukler (2004). “Financial Globalization: Gain and Pain for Developing Countries,” *Atlanta Fed Economic Review* **89**, 39–66.

Eswar Prasad and Raghuram Rajan, (2008) “A Pragmatic Approach to Capital Account Liberalization,” *Journal of Economic Perspectives* **22**, 149–172.

8. Financial and Exchange Rate Crises (March 25)

Maurice Obstfeld, (1998) “Global Capital Market: Benefactor or Menace?” *Journal of Economic Perspectives* **12** 9–30.

Sebastian Edwards (1999) “How Effective are Capital Controls?” *Journal of Economic Perspectives*, **13**, 65–84

Kristin Forbes, (2004) “Capital Controls: Mud in the Wheels of Market Discipline,” NBER working paper 10284.

Addition readings:

Lawrence Summers, (1999) “Reflections on Managing Global Integration,” *Journal of Economic Perspectives* **13**, 3–19.

Kenneth Rogoff, (1999) “International Institutions for Reducing Global Financial Instability,” *Journal of Economic Perspectives* **13**, 21–42.

Graciela L. Kaminsky, Carmen M. Reinhart, and Carlos Végh, (2003) “The Unholy Trinity of Financial Contagion,” *Journal of Economic Perspectives* **17**, No. 4, 51–74.

Second Exam March 25

8. *Regions (April 1, 8, 15, and 22)*

a. *Africa*

Andrew Kamarck, 2001 “The Tropics and Economics,” Chapter 11, *Economics for the Twenty-first Century*, Aldershot, England: Ashgate, 174–187.

Larry Sawers and Eileen Stillwaggon, (2009) “Understanding the Southern African ‘Anomaly:’ Poverty, Endemic Disease, and HIV,” working paper.

Additional Readings:

Paul Collier and Jan Willem Gunning, (1999) “Why Has Africa Grown Slowly,” *Journal of Economic Perspectives* **13**, 3–22.

Eileen Stillwaggon, (2002) “HIV/AIDS in Africa: Fertile Terrain,” *Journal of Development Studies*.

Julio Henao and Carlos Baanante, (2006) “Agricultural Production and Soil Nutrient Mining in Africa,” International Center for Soil Fertility and Agricultural Development working paper.

b. *Latin America and the Middle East*

José Antonio Ocampo, (2004) “Latin America’s Growth and Equity Frustrations during Structural Reforms,” *Journal of Economic Perspectives* **18** No. 2, 67–88.

Tarik M. Yousef, (2004) “Development, Growth and Policy Reform in the Middle East and North Africa Since 1950,” *Journal of Economic Perspectives* **18** No. 3, 91–116.

c. *Asia*

Qian, Yingyi, (1999) “The Institutional Foundations of China’s Market Transition,” Stanford University. Prepared for the World Bank’s Annual Conference on Development Economics, Washington, D.C., April.

d. *The Transition Economies*

Jan Svejnar, “Transition Economies: Performance and Challenges,” *Journal of Economic Perspectives* **16** 1, 3–28.

Julian Berengaut and Katrin Elborgh-Woytek, (2005) “Who Is Still Haunted by the Specter of Communism: Explaining Relative Output Contractions Under Transition,” International

Monetary Fund, Working Paper, page 18 only.

Comprehensive Final Exam May 6

I will be using Blackboard to post messages, copies of assigned readings, study guides, practice questions, and dormwork assignments. I will not keep a separate email roster with your actual email address, but I will email you through Blackboard. Blackboard sends your messages to your official AU email address. You will not get my messages unless you either check your AU email account regularly or have your mail forwarded. Go to my.american.edu/technology and have your email forwarded from your official AU email address to whatever hotmail, gmail, or yahoo address you currently use. From my.american.edu/technology, you can download the latest version of Adobe Reader (8.1). This new version allows you to search pdf documents (except for some very old ones) for words or phrases using the Edit/Search option. This may be useful in preparing for quizzes and papers.

Assignments

Three exams each for 25 percent of your grade.

Paper due May 6th for 25 percent of your grade. (Early submissions are encouraged.) The term research project will be a case study of a developing country's financial and currency market crisis between 1980 and 2009. You must discuss your choice of country and its crisis (some countries have had several) before you get very far along in working on your paper. In other words, I have to approve your topic before you write your paper. You will probably have to start your narrative a few years before the crisis broke out. The focus of your paper should be on your country's balance of payments (both current and capital accounts), exchange rates, fiscal stance, and monetary policy. You must consider the role of the IMF and the multilateral banks in your paper. Your paper will be judged in part on how well you demonstrate your understanding of macroeconomic policy leading up to and during the crisis period. Your paper should close with a brief discussion of lessons you draw from your country's experience that might inform efforts on the part of the Fund, the Bank, or others to respond to future financial crises in the global economy. The maximum length is six pages, not including your works cited or appendices.

You must cover quite a bit of material in your two papers, so you should aim for a condensed style of presentation. You are urged to not spend valuable time and space in flowery introductions. Assume that I know where your country is and am familiar with its geography, political history, flag, and national anthem. Of course, you should discuss your country's geography or political events, etc., if that helps explain your country's crisis. It may be useful to organize the material using bullets or a numbered outline (but do not write in sentence fragments unless your presentation is crystal clear). Do not spend time on elaborate transitions, but get straight to the analysis and to the facts. Carefully edit your papers for clarity, concision, and precision.

Expect to use a variety of resources for your paper. Reliance on one or two books or articles is not sufficient to earn a good grade. Do not expect a good grade if most of your sources are from the internet. Encyclopedias, especially on-line encyclopedias are inappropriate sources for a paper of this sort, though you may want to begin with an encyclopedia article to orient yourself in the subject matter.

Good papers will be detailed and specific. They will demonstrate a knowledge of your chosen country and an understanding of the economics needed to explain your country's crisis.

You will lose points on your paper

- if the paper is not turned in on the assigned date (late papers accepted without penalty with reasonable excuse)
- if the paper is not spell checked
- if you submit a paper in a font without serifs, that is, please use Times New Roman or Garamond rather than Arial or some other sanserif font
- if your paper is not paginated
- if you do not include a list of works cited and a list of other references used in writing your paper
- if works are not properly cited. I prefer citations in the text, not in footnotes. The preferred citation format is as follows: “. . . the sequencing of liberal reforms (Smith 1776, 324–326).” Your bibliographic entry would then appear as “Smith, Adam. (1976) *An Inquiry into the Wealth of Nations*. New York: Modern Library Edition.”
- if the paper uses endnotes. Footnotes are also discouraged: if it is important, put it in the text; if it is a citation, put it in the body of the text.
- if you do not use a liberal citation policy in which the reader is told the source of every major idea and fact

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Class Participation. Class participation means coming to class. Hopefully, while you are there you will take the opportunity to ask questions, answer questions, make comments, and most especially disagree with me. More than one unexcused absence from class results in a reduction in your final grade. Expect to lose a step in your grade (for example, from a B to a B-) for every absence.

Copying material from published sources (including the internet) or from other student's term papers without proper citation is a violation of academic protocol and violates the agreement that you have signed with the university. Any such breaches of academic integrity will be reported to the dean of the college. Penalties may include a failing grade in the course with the reason noted on your transcript and dismissal from the university. Similarly, receiving or giving help to other students during an examination will be treated in the same way. You are encouraged to study together in preparing for the exams. Asking a fellow student or the university learning center to make suggestions on drafts of your papers is appropriate. If you are not a native English speaker, you are urged to seek help editing the paper so that it is in the best English possible. Taking other people's ideas or words without acknowledgment or giving or receiving help once an exam has started is not acceptable. You may bring lecture notes, copies of assigned readings and other materials to the exam, but you cannot share them with other students during the exam and you cannot use a computer during the exam.