



DEPARTMENT OF ECONOMICS

ECON-363.01  
Macroeconomics of Development

Spring 2010  
Larry Sawers

*January 13*

Office: Roper Hall 214; email [lsawers@american.edu](mailto:lsawers@american.edu)  
Office hours: Thursdays 12:00–4:00 and Wednesdays after class.  
Classroom: Ward 303

*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, fiscal and monetary policy, and financial markets. We will trace the interplay of the theory and the practice of macroeconomic policy formation and implementation from the state-led, import-substituting industrialization that was the dominant development paradigm in the 1950s and 1960s to the resurgence of market-oriented policies in the 1980s and 1990s. The course will evaluate the success or failure of those policies, paying special attention to macroeconomic policies of the most rapidly growing economies in East Asia, the problems posed by the big-bang macroeconomics of the transition economies of Eastern Europe, and the poor macroeconomic performance of sub-Saharan Africa. The course will also dissect the waves of financial market/exchange rate crises that swept the developing economies in the Debt Crisis of the 1980s and the Asian Financial Crisis of the 1990s.

**Reading Assignments**

1. *Paradigms of Development Economics (January 13 and 20)*

Larry Sawers, (2010) Chapter One, “Introduction,” Chapter Two, “The Reinvention of Development Economics,” Chapter Three, “Development Economics and the Role of the Government,” Chapter Four, “Development Economics and Export Pessimism,” Chapter Five, “Structuralism in the 1960s and 1970s,” Chapter Six, “Import-Substituting Industrialization,” and Chapter Seven, “The Return of Liberalism,” *Economic Development Policy*.

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.

## **2. Exchange Rate Determination and Policy (January 27, February 3 and 10)**

Larry Sawers, (2009), Chapter Nine, “A Primer on Exchange Rates,” Chapter Ten, “Inflation and the Foreign Exchange Market,” Chapter Eleven, “Structuralists and Exchange Rate Policy,” and Chapter Twelve, “Liberals and Exchange Rate Policy,” *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 10 or 17**

## **3. Fiscal and Monetary Policy (February 17 and 24)**

Larry Sawers, (2009) Chapter Thirteen, “A Primer on Inflation,” Chapter Fourteen, “Inflation and Structuralism,” and Chapter Fifteen, “Liberals and Inflation,” *Economic Development Policy*.

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

### *Additional Reading:*

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

## **4. Trade (February 24 and March 3)**

Larry Sawers, (2009) Chapter Sixteen, “International Trade and Liberalism,” 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**, 1358–393.

### 5. **Financing Development (March 17)**

Larry Sawers, (2009) Chapter Seventeen, “Finance in a Structuralist Economy,” and Chapter Eighteen, “Finance in a Liberal Economy,” *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.

### Second Exam March 24

### 6. **Financial Market and Exchange Rate Crises (March 24 and 31)**

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.

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.

### 7. **Sub-Saharan Africa (April 7)**

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.

### **Term Paper Due April 14**

#### **8. *East Asia (April 14)***

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.

#### **9. *The Transition Economies (April 14)***

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.

#### **10. *Poverty, Inequality, and Development (April 21)***

Gary Fields, (2001) *Distribution and Development: A New Look at the Developing World*, Russell Sage Foundation and MIT Press, Chapters 3 and 5.

Xavier, Sala i Martin, (2002) “The Disturbing ‘Rise’ in Global Income Inequality,” National Bureau of Economic Research, working paper 8904, April 2002.

David Dollar and Aart Kraay, (2002) “Growth is Good for the Poor,” working paper, the World Bank.

Pinelopi Koujianou Goldberg and Nina Pavcnik, (2007) “Distributional Effects of Globalization in Developing Countries,” *Journal of Economic Literature* **45** No. 1, 39–82.

Shaohua Chen and Martin Ravallion, (2004) “How Have the World’s Poorest Fared Since the Early 1980s?” World Bank Policy Research Working Paper 3341, June.

#### **11. *Conclusion (April 21)***

Larry Sawers, (2009) Chapter Twenty, “The End of Liberalism,” *Economic Development Policy*.

### **Comprehensive Final Exam April 28**

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](http://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. Make sure you have the latest version

of Adobe Reader, which 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 April 14 for 25 percent of your grade.** 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 paper, 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
- 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 and formally 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

Submit your term papers by attaching a copy to an email. When I save your paper to my hard drive, I will reply to your email with one of my own saying that I have received your paper. If you do not hear in a day or two that I got your paper, check with me. I will return your paper by email with my comments. Please submit your paper in Word. You must have up-to-date virus protection on your computer before you submit your papers. Name your file before you send it to me using the following format: your last name course number country.doc (for example, “Smith 363 S. Korea.doc” or “Smith 363 S. Korea.docx”).

**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 or cell phone during the exam.