

School of Economics and Finance

ECON431 Growth and Development

Trimester One 2012

COURSE OUTLINE

Names and Contact Details

Course Coordinator

Professor Morris Altman

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Trimester Dates

Teaching Period: Monday 5 March – Friday 8 June

Study Period: Monday 11 June – Thursday 14 June

Examination Period: Friday 15 June – Wednesday 4 July (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 16 March 2012.
2. The standard last date for withdrawal from this course is Friday 18 May. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an 'Application for Associate Dean's Permission to Withdraw Late' including supporting documentation.

The application form is available from either of the Faculty's Student Customer Service Desks.

Class Times and Room Numbers

Lecture time Monday 1.40 – 3.30 pm RWW125

Course Content

This course examines several important aspects of growth and development from both a theoretical and empirical perspective. This course is composed of two parts.

The first part (**week 1-6**) focuses on selected topics in Economic Development with special emphasis on development from an historical perspective, export-led growth, endogenous growth, and institutional factors underlying the growth process.

The second part (**week 7-12**) examines various key theories of economic growth, where the latter can help explain the process of growth and development.

Chia-Ying Chang

Weeks	Topics
7	The facts, theory, and evidence in economic performance
8	Technological change, diffusion, and economic growth
9	Income inequality and economic growth
10	Growth policies, human capital, and mechanisms
11	Institutions and economic growth
12	Queen's Birthday holiday (no lecture)

Course Learning Objectives

By the end of this course the student should be able to:

- 1 Achieve a comprehensive understanding of economic development
- 2 Achieve a comprehensive understanding of economic growth theory
- 3 Gain a detailed appreciation of the empirical and theoretical underpinnings of economic growth and development
- 4 Develop research skills related to economic development and growth
- 5 Develop competent presentation skills in a public forum

Course Delivery

There are 12 meetings for lectures in total for this course. Each meeting takes 2 hours. Students are expected to attend every lecture and to turn in the assessments on time.

Expected Workload

Class attendance: 2 hours/week

Reading and Reviewing: 6 hours/week

Assignments/essays: 2 hours/week on average

Readings (weeks 1 -6) with Professor Morris Altman

The following readings cover the areas of convergence of per capita income, export-led growth, income inequality, and institutions and growth. These readings will be useful for research papers. Required reading for this course will assigned in class and posted on Blackboard.

Books on 3-day loan from the commerce library:

Acemoglu, Daron (2009). *Introduction to Modern Economic Growth*. Princeton: Princeton University Press.

Collier, Paul (2007). *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*. New York: Oxford University Press.

Easterly, W. (2001). *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. Cambridge, Mass.: MIT Press.

Rodrik, D. (2007). *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton University Press, Princeton, NJ.

Sen, A. (1999). *Development as Freedom*. New York: Oxford University Press.

Other References

Abramovitz, M. (1956), Resource and Output Trends in the United States Since 1870. *American Economic Review*, 46: 5-23.

Abramovitz, M. (1986), Catching Up, Forging Ahead, and Falling Behind. *Journal of Economic*

- History*, 46: 385-406.
- Aghion, P., E. Caroli, and C. García-Peñalosa (1999), Inequality and Economic Growth: The Perspective of the New Growth Theories. *Journal of Economic Literature* 37: 1615-1660.
- Acemoglu, Daron (2009). *Introduction to Modern Economic Growth*. Princeton: Princeton University Press.
- Acemoglu, Daron, Simon Johnson, James A. Robinson (2002). Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution *Quarterly Journal of Economics* 117: 1231-1294.
- Acemoglu, Daron, Simon Johnson, James A. Robinson (2001). The Colonial Origins of Comparative Development: An Empirical Investigation, *American Economic Review* 91: 1369-1401.
- Altman, M. (1987), A Revision of Canadian Economic Growth: 1870-1910 (a challenge to the gradualist interpretation). *Canadian Journal of Economics*, 20: 86-113.
- Altman, M. (1992), Revised Real Canadian GNP Estimates and Canadian Economic Growth, 1870-1926. *Review of Income and Wealth*, Series 38: 455-473.
- Altman, M. (1998), A High Wage Path to Economic Growth and Development. *Challenge: the Magazine of Economic Affairs*, 41: 91-104.
- Altman, Morris (1999a). A Theory of Population Growth When Women Really Count, *Kyklos* 52: 27-44.
- Altman, M. (1999b), Free Trade and Protectionism. In P. O'Hara, ed. *Encyclopedia of Political Economy*, vol. 1 (London: Routledge) 372-375.
- Altman, M. (1999c), Social Capacity and Convergence. In P. O'Hara, ed. *Encyclopedia of Political Economy*, vol. 2 (London: Routledge): 1033-1035.
- Altman, M. (2000), A Behavioral Model of Path Dependency: the Economics of Profitable Inefficiency and Market Failure. *Journal of Socio-Economics*. 29: 127-145.
- Altman, M. (2008) "How much economic freedom is necessary for economic growth? Theory and evidence," *Economics Bulletin* 15, No. 2: 1-20.
- Altman, M. (2008). "Towards a Theory of Induced Institutional Change: Power, Labor Markets, and Institutional Change," in Nicholas Mercurio and Sandra S. Batie (eds.), *Alternative Institutional Structures*. London: Routledge, pp. 300-329.
- Altman, M. (2009). "A Behavioral-Institutional Model of Endogenous Growth and Induced Technical Change," *Journal of Economic Issues* 63: 685-713.
- Arrow, K.J. (1962), The Economic Implications of Learning By Doing. *Review of Economic Studies*, 29: 155-173.
- Arthur B.W. (1990), Positive Feedbacks in the Economy. *Scientific American*, 204 (Feb): 92-99.
- Bairoch (1993), *Economics and World History: Myths and Paradoxes*. Chicago: Chicago University Press.
- Baldwin, R.E. (1956), Patterns of Development in Newly Settled Regions. *Manchester School*, 24: 161-179.
- Baran, P.A. (1969a), On the Political Economy of Backwardness. In J. O'Neill, ed. *P.A. Baran, The Longer View: Essay Toward a Critique of Political Economy* (New York/London: Monthly Review): 249-270.
- Baran, P.A. (1969b), Economic Progress and Economic Surplus. In J. O'Neill, ed. *P.A. Baran, The Longer View: Essay Toward a Critique of Political Economy* (New York/London: Monthly Review): 271-307.
- Baumol, W.J. (1986), Productivity Growth, Convergence, and Welfare: What the Long-Run Data Show. *American Economic Review* 76: 1072-1085.
- Bertram, G.W. (1963), Economic Growth in Canadian Industry: The Staple Model and the Take-off Hypothesis. *Canadian Journal of Economics and Political Science*, 24: 159-184.
- Blum, J. (1957). The Rise of Serfdom in Eastern Europe. *American Historical Review*, 62: 807-

- Callender, G. (1902-03), The Early Transportation and Banking Enterprises of the States in Relation to the Growth of Corporations. *Quarterly Journal of Economics*, 17: 111-162.
- Caves, R.E. (1971), Export-Led Growth and the New Economic History. In J.N. Bhagwati, et al. *Trade, Balance of Payments, and Growth* (Amsterdam: North-Holland Publishing): 403-442.
- Caves, R.E. (1965), 'Vent for Surplus' Models of Trade and Growth. In R.E. Baldwin, et al. *Trade, Growth and the Balance of Payments: Essays in Honor of Gottfried Haberler* (Chicago: Rand McNally and Company): 95-115.
- Chambers, E.J. and D.F. Gordon (1966), Primary Products and Economic Growth. *Journal of Political Economy*, 74: 315-332.
- Coase, R.H. (1994) "How Should Economists Choose?" In R.H. Coase, *Essays on Economics and Economists* (Chicago: University of Chicago Press): 15-33.
- Collier, Paul (2007). *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*. New York: Oxford University Press.
- DeLong, B.J. (1988), Productivity Growth, Convergence, and Welfare: Comment. *American Economic Review*, 78: 1138-1154.
- Domar, E.D. (1970), The Causes of Slavery or Serfdom: A Hypothesis. *Journal of Economic History*, 30: 18-32.
- Easterlin, R.E. (1981), Why Isn't the Whole World Developed? *Journal of Economic History*, 41: 1-19.
- Easterly, W. (2001). *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. Cambridge, Mass.: MIT Press.
- Easterly, W. (2003). Can Foreign Aid Buy Growth? *Journal of Economic Perspectives* 17: 23-48.
- Edwards, S. (1998), Openness, Productivity and Growth: What Do We Really Know? *Economic Journal*, 108: 383-398.
- Fogarty, J. (1985), Staples, Super-Staples and the Limits of the Staple Theory: the Experiences of Argentina, Australia and Canada Compared. In D.C.M. Platt and G. di Tella, eds. *Argentina, Australia and Canada: Studies in Comparative Development, 1870-1965* (New York, St. Martin's Press): 1-36.
- Greasley, David and Oxley, Les (1999). Growing Apart? Australia and New Zealand growth experiences, 1870-1993, *New Zealand Economic Papers*, 33: 2, 1-13.
- Greasley, David and Oxley, Les (2000). Outside the Club: New Zealand's economic growth, 1870-1993, *International Review of Applied Economics*, 14: 2, 173-192.
- Grossman, G.M. and E. Helpman (1994), Endogenous Innovation in the Theory of Growth, *Journal of Economic Perspectives*, 8: 23-44.
- Habbakkuk, H. J. (1962), *American and British Technology in the Nineteenth Century: The Search for Labour-Saving Inventions* (Cambridge, England: Cambridge University Press).
- Harris, M. (1959), The Economy Has No Surplus? *American Anthropologist*, 61: 185-199.
- Hirschman, A.O. (1977), A Generalized Linkage Approach to Development, with Special Reference to Staples. *Economic Development and Cultural Change*, 25: S67-S98.
- Innis, H.A. (1967), The Importance of Staple Products, first published in 1930. In W.T. Easterbrook and M.H. Watkins, eds. *Approaches to Canadian Economic History* (Toronto: McClelland and Stewart Limited): 16-19.
- Innis, H.A. (1973a), Unused Capacity as a Factor in Canadian Economic History, first published in 1936. In M.Q. Innis, ed. *Essays in Canadian Economic History: Harold A. Innis* (Toronto: University of Toronto Press): 141-155.

- Innis, H.A. (1973b), Transportation as a Factor in Canadian Economic History, first published in 1931. In M.Q. Innis, ed. *Essays in Canadian Economic History: Harold A. Innis* (Toronto: University of Toronto Press): 62-77.
- Innis, H.A. (1940), *The Cod Fisheries: The History of an International Economy* (Toronto: University of Toronto Press).
- Innis, H.A. (1956), *The Fur Trade in Canada: An Introduction to Canadian Economic History*, first published in 1930 (Toronto: University of Toronto Press).
- Karvis, I.B. (1970a), External and Internal Supply Factors in LDC Export Performance. *Banca Nazionale del Lavoro Quarterly Review*, 23: 157-179.
- Kravis, I.B. (1970b), Trade as a Handmaiden of Growth: Similarities Between the Nineteenth and Twentieth Centuries. *Economic Journal*, 80: 850-872.
- Kravis, I.B. (1971), The Role of Exports in Nineteenth-Century United States Growth. *Economic Development and Cultural Change*, 20: 387-405.
- Kaufmann D. and Aart Kraay (2002), Growth without Governance, *Economía* 3: 1529-7470.
- Kaufmann D. and Aart Kraay (2003), Governance and Growth: Causality which way? -- Evidence for the World, in brief, Discussion Paper, World Bank.
- Kaufmann, D. (2003). Rethinking Governance Empirical Lessons Challenge Orthodoxy, Discussion Paper, The World Bank.
- Leibenstein, H. (1966), Allocative Efficiency vs. 'X-Efficiency. *American Economic Review*, 56: 392-415.
- Lucas, R.E. (1988), On the Mechanics of Economic Development. *Journal of Monetary Economics*, 22: 3-42.
- Mackintosh, W.A. (1967), "Economic Factors in Canadian Economic History, first published in 1923. In W.T. Easterbrook and M.H. Watkins, eds. *Approaches to Canadian Economic History* (Toronto: McClelland and Stewart Limited), 1-15.
- Maddison, A. (1991), *Dynamic Forces in Capitalist Development: A Long-run Comparative View* (Oxford/New York: Oxford University Press).
- Maddison, A. (1995), *Monitoring the World Economy, 1820-1992* (Paris: OECD).
- McCusker, J.J. and R.R. Menard (1985), *The Economy of British North America* (Chapel Hill, N.C. University of North Carolina Press).
- Murphy, K.M., A. Shleifer and R. Vishny (1989), Income Distribution, Market Size, and Industrialization. *Quarterly Journal of Economics*, 104: 537-564.
- Myint, H. (1958), The Classical Theory of International Trade and the Underdeveloped Countries. *The Economic Journal*, 68: 317-337.
- Nelson, R.R. (1968), A 'Diffusion' Model of International Productivity Differences in Manufacturing Industry. *American Economic Review*, 58: 1219-1248.
- North, D.C. (1955), Location Theory and Regional Economic Growth. *Journal of Political Economy*, 63: 243-258.
- North, D.C. (1959), Agriculture in Regional Economic Growth. *Journal of Farm Economics*, 41: 943-951.
- North, D.C. (1990), *Institutions, Institutional Change and Economic Performance* (Cambridge, England: Cambridge University Press).
- Greasley, David and Les Oxley. Outside the Club: New Zealand's Economic Growth, 1870-1993. *International Review of Applied Economics* 14, no. 2 (1999): 173-92.
- O'Rourke, K. (2000), Tariffs and Growth in the Late Nineteenth Century. *Economic Journal* 110: 456-43.
- Parente, L. and E.C. Prescott (2000), *Barriers to Riches* (Cambridge, MA/London: MIT Press).

- Pomfret, R. (1981), The Staple Theory as an Approach to Canadian and Australian Economic Development. *Australian Economic History Review*, 21: 133-146.
- Pritchett, L. (1997), Divergence, Big Time. *Journal of Economic Perspectives*, 11: 3-17.
- Rodriguez, F. and D. Rodrik (1999), Trade Policy and Economic Growth: A Skeptics Guide to the Cross-National Evidence, *NBER Working Paper 7081* (Cambridge, MA: National Bureau of Economic Research).
- Rodrik, D. (1997), Globalization, Social Conflict and Economic Growth, *Working Paper* (Cambridge, MA: John F. Kennedy School of Government, Harvard University).
- Rodrik, D. (2001), Trading in Illusions. *Foreign Policy: the Magazine of Global Politics, Economics, and Ideas*, March-April.
- Rodrik, D. (2007). *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton University Press, Princeton, NJ.
- Romer, P.M. (1986), Increasing Returns and Long-Run Growth. *Journal of Political Economy*, 94: 1002-37.
- Romer P.M. (1990), Endogenous Technical Change. *Journal of Political Economy*, 98: S71-S102.
- Rosenberg, N. (1982a), The Historiography of Technical Progress. In N. Rosenberg. *Inside the Black Box: Technology and Economics* (Cambridge, England: Cambridge University Press): 3-33.
- Rosenberg, N. (1982b), The International Transfer of Technology: Implications for Industrialized Countries. In N. Rosenberg. *Inside the Black Box: Technology and Economics* (Cambridge, England: Cambridge University Press): 245-279.
- Ruttan, V.W. (1997), Induced Innovation, Evolutionary Theory and Path Dependence: Sources of Technical Change. *Economic Journal*, 107: 1520-1529.
- Sachs, J.D. and A.M. Warner (1995), Natural Resource Abundance and Economic Growth, *NBER Working paper Series # 5398* (Cambridge, MA: National Bureau of Economic Research).
- Salter, W.E.G. (1960), *Productivity and Technical Change* (Cambridge, England: Cambridge University Press).
- Schedvin, C.B. (1990), Staples and Regions of Pax Britannica. *Economic History Review*, 43: 533-559.
- Sen, A. (1999). *Development as Freedom*. New York: Oxford University Press.
- Singleton, John. "New Zealand in the Nineteenth and Twentieth Centuries". EH.Net Encyclopedia, edited by Robert Whaples. February 10, 2008. URL <http://eh.net/encyclopedia/article/Singleton.NZ>
- Solow, R.M. (1956), A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics*, 70: 65-94.
- Solow, R.M. (1957), Technical Progress and the Aggregate Production Function. *Review of Economics and Statistics*, 39: 312-320.
- Solow, R.M. (1960), Investment and Technical Progress. In K.J. Arrow, S. Karlin, and P. Suppes, eds. *Mathematical Methods in the Social Sciences* (Stanford, California: Stanford University Press).
- Urquhart, M.C. and K.A.H. Buckley, eds. (1965), *Historical Statistics of Canada* (Toronto: Macmillan).
- Urquhart, M.C. (1986), New Estimates of Gross National Product, Canada, 1870-1926: Some Implications for Canadian Development. In S.L. Engerman and R. E. Gallman, eds. *Long-Term Factors in American Economic Growth, Studies in Income and Wealth*, Vol. 51,

- NBER (Chicago: University of Chicago Press): 9-94.
- Watkins, M.H. (1963), A Staple Theory of Economic Growth. *The Canadian Journal of Economics and Political Science*, 24: 141-158.
- Young, A.A. (1928), Increasing Returns and Economic Progress. *Economic Journal*, 38: 527-542.

Readings (weeks 7-12) with Dr. Chia-Ying Chang

Books on 3-day loan from the Commerce library:

- Acemoglu, Daron (2009), *Introduction to Modern Economic Growth*, Princeton Press. [short as A (2009)]
- Aghion, Philippe, and Steven N. Durlauf (2005), *Handbook of Economic Growth*, ed., Amsterdam: Elsevier Publisher, Volume 1-2 [short as A&D(2005)]
- Aghion, Phillippe, and Rachel Griffith (2005), *Competition and Growth: Reconciling Theory and Evidence*, Cambridge, Ma. MIT Press [short as A&G (2005)]
- Barro, Robert, and Xavier Sala-I-Martin (2004), *Economic Growth*, McGraw-Hill Press, Cambridge, Mass.: MIT Press [short as B&S (2004)]
- Jones, Charles I. (2002), *Introduction to Economic Growth*, 2nd edition, New York, W.W. Norton Press [Jones (2002)]

Week 7: Introduction: The facts, theory, and evidence in economic performance

- A (2009), chapters 1; 3.1; 4
- A&D (2005), page 1-10
- A&G (2005), Page 1-87
- B&S (2004), chap. 1, page 1-21
- Jones (2002), chap 1, page 1-18

Week 8: Technological change, diffusion, and economic growth

- A (2009), chapters 12, 13, 14, 15, 18, 19.1-2.
- Aghion, P., and P. Howitt (2005), “Growth with quality improving innovations: an integrated framework”, [A&D(2005), chap. 2], page 67-110.
- Greenwood, J., and A. Seshadri (2005), “Technological Progress and Economic Transformation”, [A&D(2005), chap. 19], pages 1225-1274.
- Jones (2002), chapter 4-5, page 79-123.

Week 9: Income inequality and economic growth

- Benabou, Ronald (2005), “Inequality, Technology, and the Social Contract”, [A&D(2005), chap. 25], pages 1595-1638.
- Hornstein, A., and P. Krusell, and G. Violante (2005), “The effects of technical change on labour market inequalities”, [A&D(2005), chap. 20], pages 1275-1362.

Week 10: Growth policies, human capital, and mechanisms

- A (2009), chapters 10, 11.2-4.
- Benhabib, J., and M. Spiegel (2005), “Human Capital and Technology Diffusion”, [A&D(2005), chap. 13], page 935-966.
- Levine, R. (2005), “Finance and growth”, [A&D(2005), chap. 12], page 865-934.

Week 11: Institutions and economic growth

- A (2009), chapters 22, 23.
- Acemoglu, D., S. Johnson, and J. Robinson (2005), “Institutions as Fundamental Cause of

Long-Run Growth”, [A&D(2005), chap. 6], page 385-472.

Materials and Equipment

Any additional notes will be posted on Blackboard.

Assessment Requirements

Your final grade will be composed of:

1. One 3 page research report on a selected scholarly article due **4th week of class** 5%
2. A mid-term test **5th week of class**—one hour test 10%
Students are required to present an outline or first draft of their paper in the **6th week of class**. *Take note that plagiarism and other forms of academic dishonesty are reasons enough to fail this course.*
3. One 15 page (maximum) research paper due **8th week of class** (after the mid-trimester break) 15%
4. One report, due at **1 pm, Monday 21 May (10th week)** via email to Chia-Ying (chia-ying.chang@vuw.ac.nz) 15%
5. Assignment, due at **1.40pm, Monday 28 May (11th week)** in class 15%
6. A two hour final exam 40%

Any late assignment will be granted zero marks unless a valid medical certificate is provided.

Quality Assurance Note

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period.

The final examination for this course will be scheduled at some time during the period from Friday 15 June – Wednesday 4 July (inclusive).

Penalties

Late assignments will not be marked. If a satisfactory medical certificate is provided the weight from the assignment will be shifted onto the other pieces of assessment; otherwise the assignment score will be recorded as 0. There will be no mandatory course requirements.

Mandatory Requirements

Submitting the research paper, sitting the mid-term test, and completing one problem-solving assignment.

Class Representative

An overall class representative will be chosen to represent all SEF Honours classes.

Communication of Additional Information

All course information will be available on Blackboard. Announcements will be posted.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

Find key dates, explanations of grades and other useful information at www.victoria.ac.nz/home/study

Find out about academic progress and restricted enrolment at <http://www.victoria.ac.nz/home/study/academic-progress.aspx>

The University's statutes and policies are available at www.victoria.ac.nz/home/about/policy, except qualification statutes, which are available via the Calendar webpage at <http://www.victoria.ac.nz/home/study/calendar.aspx> (See Section C).

Further information about the University's academic processes can be found on the website of the Assistant Vice-Chancellor (Academic) at www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx

AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support

http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/