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Economic Development II

Lecture 1 & 2

Lecture 1 & 2

Major Growth and Economic Development Theories

23/11/2005

Instructor: Chau Van Thanh
Translator: Nguyen Quy Tam

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Questions

Economic growth.

Economic growth vs. Economic development.

Sustainable economic development.

What did theories say.

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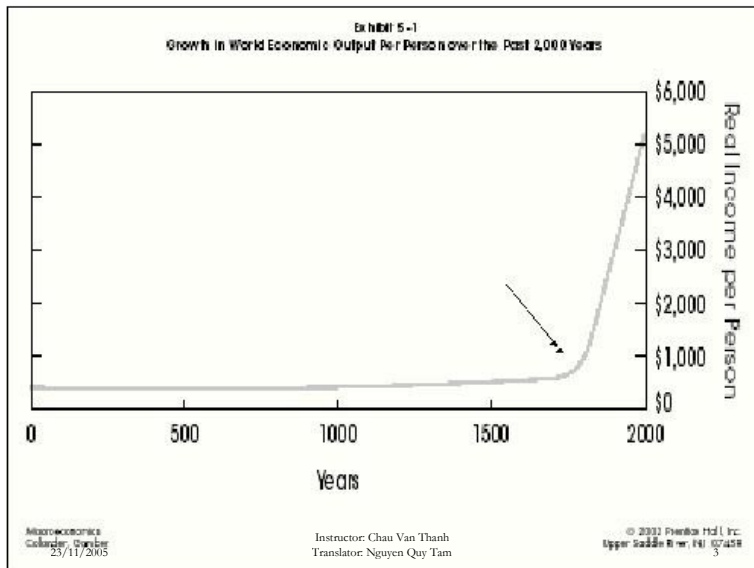
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World real GDP per capita

Source: Hendrik Van Den Berg, 2001, Ch.1

Year	Population (million)	GDP (USD bil. 1990)	Per capita GDP (USD 1990)
0	250	106	425
1000	273	115	420
1500	425	240	565
1820	1068	695	651
1870	1260	1128	895
1913	1772	2726	1539
1950	2512	5372	2138
1973	3897	16064	4123
1995	5672	29423	5188

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Recent growth

After 1820:

World population:	5 times
Food production:	40 times.
Per capita food production:	8 times.

Growth slowed down after 1973, speeded up in
the 1990s and

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Growth characteristics 1820 - up to now

1. Not always fast and consistent
2. Pace and location of each country changed quickly over time.
3. Wealth distribution and living standard gap (much inequality; compared to developed countries, many developing countries fell behind).

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Questions

Why do some countries grow very fast while others grow very slowly.

Can poor countries catch up to the rich ones. How.

How come some relatively poor East Asian countries in the 1960s achieved fast growth and were able to catch up with medium and high income countries within 30 years.

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Questions

What will the world economy landscape be in the early 25-50 years of the new millennium.

What are possible threats and problems. How will these new problems be resolved.

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Issues

Sustainable development in a dynamic world:
Institutional change, growth and quality of life -
WDR 2003.

Improving services for the poor WDR 2004.

Socio economic development targets of Vietnam to
2010 and 2020.

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Periods of economic development

1950 70: Growth and modernization (CNN)

1970 - 85: Growth and equity

1985 - 99: Food security, openness and transparency

2000 - 25: Globalization and national community

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Globalization

1870-1914: Trade and investment.

1914-1945: World war and recession.

1945-1980: International trade boom, high capital flows
and immigration had not yet emerged.

1980-today: Expansion of biotechnology, electronics
and information, free trade, capital and labor
mobility.

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Economic integration

Level of connection among economies common economy.

Complete integration: Economies operate as one.

Trade and capital flows increased economic integration.

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Data 2002, WDR-WB 2004

	Population (million)	GNI (US\$ billion)	Per capita (US\$)	GNI-PPP (US\$ billion)	Per capita GNI - PPP (US\$)	g_{CDP} (%) 2001-2002
World	6201	31484	5080	46952	7570	1.7
Low income	2495	1072	430	5092	2040	4.1
Mid income	2742	5033	1840	15431	5630	3.2
High income	965	25384	26310	26622	27590	1.3
US	288	10110	35060	10110	35060	2.3
Singapore	4	86.1	20690	96	23090	2.2
Thailand	62	122.2	1980	411	6680	5.2
Vietnam	81	34.9	430	180	2240	7.1

Low income: = 735\$

Mid income: 736\$ - 9075\$

High income: = 9076\$

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Vietnams per capita income compared to neighbors (%)								
	1950	1960	1970	1975	1980	1990	1995	1998
Thailand	80.5	74.1	43.4	36.2	29.7	22.4	21.2	27.0
Rep. of Korea	85.5	72.3	37.6	22.5	18.4	11.9	11.8	13.8
Indonesia	78.3	78.4	61.6	47.2	40.5	41.3	42.1	54.6
China	149.9	118.7	93.9	81.2	71.0	56.0	52.9	52.8
<p>Source: Van Arkadie/Mallon, 2001, p.5 (LD, 2005)</p> <p>Instructor: Chau Van Thanh Translator: Nguyen Quy Tam</p>								
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Example

	1960	1975	1990	Note
GDP index	100	317	1006	g = 8% year no redistribution
20% poorest	2	6.3	20.1	
GDP index	100	135	182	g = 2% year no redistribution
20% poorest	8	10.8	14.5	
Growth helps improve income and poverty				

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Catch-up time

	10 years	20 years	30 years	40 years
2%	1.2	1.5	1.8	2.2
4%	1.5	2.2	3.2	4.8
6%	1.8	3.2	5.7	10.3
8%	2.2	4.7	10.1	21.7
10%	2.6	6.7	17.4	45.3

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Increase in national income or per capita national income

Growth is a sustainable increase in output per capita or output per worker (Simon Kuznets)

Economic growth occurs when output growth outpaces population growth (Douglass C. North and Robert Paul Thomas)

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Economic growth

Increase in human welfare (life-span, education, nutrition, art, security).

Output includes goods and services

Growth has something to do with increases and improvements in social welfare

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Economic development

Development must be redefined as an attack on the major evils of today's world: malnutrition, disease, illiteracy, slums, unemployment and inequality. In terms of growth rates, development is indeed a great success. Yet, in terms of employment, equity, and poverty reduction, it is a failure or a half-way success.

Paul Streeten

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Economic development

*.. Economic growth cannot be seen as an end.
More concerns should be put on the kind of
development that is associated with
improvements in welfare and the freedoms that
we are enjoying* Amrtya Sen.

*Development under a five-axe model: spiritual
morality, society, politics, economics and
physicality, and the 4E model (Evolution,
Equity, Efficiency, Equilibrium) -Peter Calkins.*

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Growth and sustainable development

A sustainable development process is not an abstract concept it wears a human face through the image of farmers who travel increasingly farther to find food and firewood, or residents in slums with hygiene conditions that breed illness, or laborers in polluted and crowded urban areas.

Kofi Annan, 2002

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Growth and sustainable development

I go to collect water four times a day, in a 20-litre clay jar. Its hard work!...Ive never been to school as I have to help my mother with her washing work so we can earn enough money. Our house doesnt have a bathroom. If I could alter my life, I would really like to go to school and have more clothes.

Elma Kassa, a 13-year-old girl
from Addis Ababa, Ethiopia

WDR, 2004, page 1

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Growth and sustainable development

Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Rio de Janeiro, 1992

Sustainable development: Growth is maintained without reducing stock of productive resources.

Implication: Investment to replace physical and human capital erosion, and to generate new technology (effective replacement and strengthening of resources).

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Economic development targets

Not only GDP and per capita growth, but also sustainable development, poverty reduction, human development

Poor rich: not only per capital income, but also physical and mental living conditions, quality of goods and services, life-span, health, health care, education, social security, job opportunities, legal system, governance, business environment and opportunities, market development.

***Growth and economic development interchangeably used.
Economic development a complete change (economy, politics, culture, society, institution)***

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Millennium Development Goals

(189 countries, 8 goals, 18 targets, 48 indicators MDG 9/2000)

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

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Economic growth and economics of development

Same focus increase in income, but with different approaches:

Late 19th century early 20th century.

In 1950-60.

Subjects of study tend to converge:

Examine growth process, role of technology and factors of production accumulation.

Combine economics models and theories

Policy analysis

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School of thoughts: Theories

- 1. Classical growth**
- 2. Linear growth**
- 3. Structural change**
- 4. International dependence**
- 5. Neo-classical counterrevolution**
- 6. New growth**

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Classical growth theory

Production function: $Y = F(K, L)$

Source of growth:

- (1) K and L;
- (2) Effective improvement of K + L (specialization + technology progress); and
- (3) Trade, market, improve (1) and (2)

Growth: continuous development state.

Profit S, I and accumulated K growth, demand for L production.

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Dominant theories The 1950s and 1960s

Linear stages of growth model

Economic development = a multi-stage process of economic growth that all nations must go through.

Developed countries (already), and developing countries (following).

S, I, aids, role of K accumulation (developing countries)

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Dominant theories The 1970s

Structural change and Dependence theories.

Structural change theory: Economic theory + economic analysis
Structural change description generates and maintains economic growth.

Dependence theories: Political dependence (inside and outside) of development.

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Dominant theories
The 1980s and early 1990s

Neoclassical counterrevolution

Highlights free markets, openness and
privatization.

Criticizes governments over-
intervention/control.

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Dominant theories**Today**

Combines with theories from the 1950s.

Endogenous growth, role of knowledge, human capital,
R&D, increasing returns to scale.

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After WWII, the Marshall Plan helped restructure Europe, newly independent countries were concerned about materialization, not an analytical/conceptual framework on economic growth in traditionally industrialized countries (Feature: no clear economic structure)

Linear growth theory

Economic development = a multi-stage process of economic growth that all nations must go through.

Developed countries (already), and developing countries (following).

S, I, aids, role of K accumulation (developing countries)

Walt W. Rostow

1960: The Stages of Economic Growth

Harrod-Domar

Harrod (39) + Domar (47)
The One-Gap Model

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Linear growth theory

Walt Whitman Rostow and the five-stage model

Countries, overtime 5 stages:

1. Traditional society
2. The preconditions for takeoff
3. Takeoff
4. Drive to maturity
5. High mass consumption

Developed countries: After takeoff.

Developing countries: Traditional society (financial gap and investment capacity) I

Role of leading sector (industry) with fastest and most dynamic growth.

Role of S and I.

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Linear growth theory
Rostow and the five-stage model
Key Takeoff stage

Features:

- Infrastructure investment (traffic), S and I ratio: 5
10%.
- Substantial increase in agricultural productivity.
- Ability to import equipment and machinery.
- Strong development of manufacturing.
- Development of institutions and modern
manufacturing facilities.

Takeoff:

England (1783-1802), France (1830-1860), US (1843-
1860), Japan (1878-1900), Canada (1896-1914)

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Linear growth theory
Rostow and the five-stage model
Drive to maturity

Increase $Y \gg$ increase POP.

I rate from 10-20%.

From takeoff to maturity takes about 60 years.

In the late quarter of 19th century, rail roads developed,
followed by steel, ship building, chemical and
electronics

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Linear growth theory
Rostow and the five-stage model
Maturity High mass consumption

Continuous growth maturity + high mass
consumption (for hundreds of years).
Structural change is no longer fast.

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Linear growth theory**Rostow and the five-stage model****Comment**

1. Unable to clearly identify stages.
2. Focuses only on growth (development.).
3. Role of foreign aid and investment for the third world.
4. Ignores political - economic relationship between developed and underdeveloped countries (undermines development).
5. Institution and international relations go beyond control of developing countries.
6. Soviet Union, Vietnam.

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Linear growth theory

The Harrod-Domar Model

Post Keynes, popular in 50s, 60s: Developing countries

$$g = (s/v) - d = . Y/Y$$

$$(g = s/k.)$$

$$v = K/Y : \text{COR}$$

$$v = .K/ .Y : \text{ICOR}$$

$$.K = sY - dK.$$

S (+ aids + other financial flows) I.

The higher S, I the greater g.

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ICOR in selected countries

(a) period 85-90

Source: calculation based on data in WDI 2002, WB

	1961-70	1971-80	1981-90	1991-00
United States	4.99	6.26	6.09	5.76
Japan	3.39	7.60	7.29	20.19
Indonesia	2.54	2.85	4.54	6.26
India	4.19	6.72	3.94	4.30
China	7.29	5.88	3.84	3.81
Vietnam			3.22 (a)	3.27
Argentina	5.76	8.84	-12.46	3.93
Brazil	3.22	2.74	13.24	7.70

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Linear growth theory

The Harrod-Domar Model

S, I, income, output stable growth + full employment
(developed countries).

Applications: Sectors, regions, economies.

Simple method to find out capital and growth
relationship in developing countries:

Investment priority: Low ICOR, high g

Transitional step for study: Two-gap model (Sd
& FE) FE. ISI ISI trouble BOP difficulty

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Linear growth theory

The Harrod-Domar Model Comment

1. Institutions, structure...are the same for effective capital transferring into output in all countries (.).
2. Ability to control external environment (.).
3. Unchanged K/L assumption (.).
4. K/Y (COR, ICOR) is different among countries, and over time, why.

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Structural change models

Structural change theory: Economic theory + economic analysis
Structural change description generates and maintains economic growth.

Developing countries: Traditional agriculture industry.

The two sector model with labor surplus (W Arthur Lewis) and development pattern (Hollis Chenery).

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Structural change models

Growth in one region relates to growth in others
(industrialization and agricultural development).

Contribution changes overtime (Ag-Ind-Ser).

Popular in Latin America (1940s, 50s, 60s):

1. Does not follow the neo-classical approach (modeling, marginal concept, prices).
2. Believes in structure/structural change active policy (ISI new comparative advantage).

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Structural change models

The two sector model with labor surplus
W Arthur Lewis

Structural change: Traditional agriculture industrial
society, modernization and urbanization.

Traditional sector:

Production function: L the only input.

Other inputs (including technology) assumed unchanged.

Labor surplus and mobility (to $MPL_{NN}=0$).

Payment based on average product per labor.

(graph)

Lewis ($MPL_{NN}=0$) & neo-classical ($MPL_{NN}>0$)

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Structural change models**The two sector model with labor surplus****W Arthur Lewis****Comments:**

1. Absorption of labor in modern sector and surplus of labor in agriculture are timely different.
2. Sectoral and labor structure imbalance.
3. Capital intensive technology vs. labor intensive technology.
4. Investing or retaining profit behavior.
5. Unemployment in urban and rural.
6. Urban wage increases with the existence of unemployment.
7. Marginal product = 0.

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Structural change models

Development patterns and Structural change

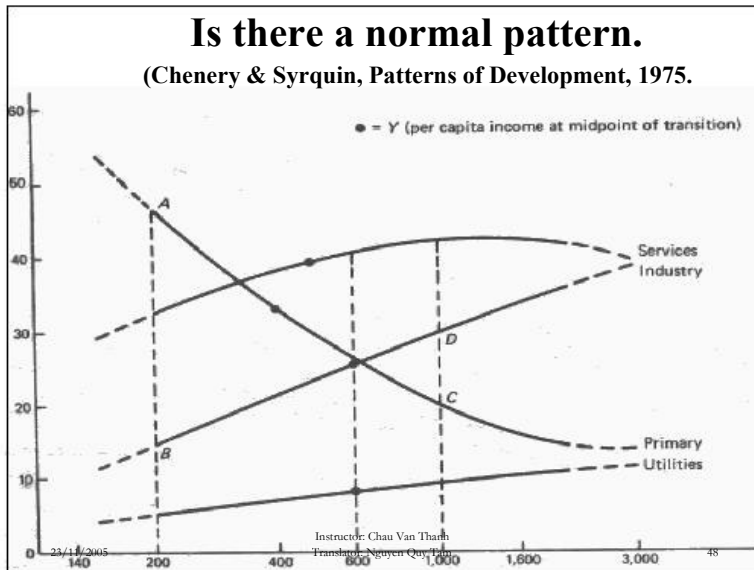
Hollis Chenery

1. Shift from agricultural production to manufacturing (services) (labor and products),
2. Accumulation of physical and human capital,
3. Structural change in demand for consumption (Foods processed goods and services),
4. Development of urban and urban industries - migration,
5. Changes in family size and increases in population,
6. Changes in international trade (WTO, regional agreement).

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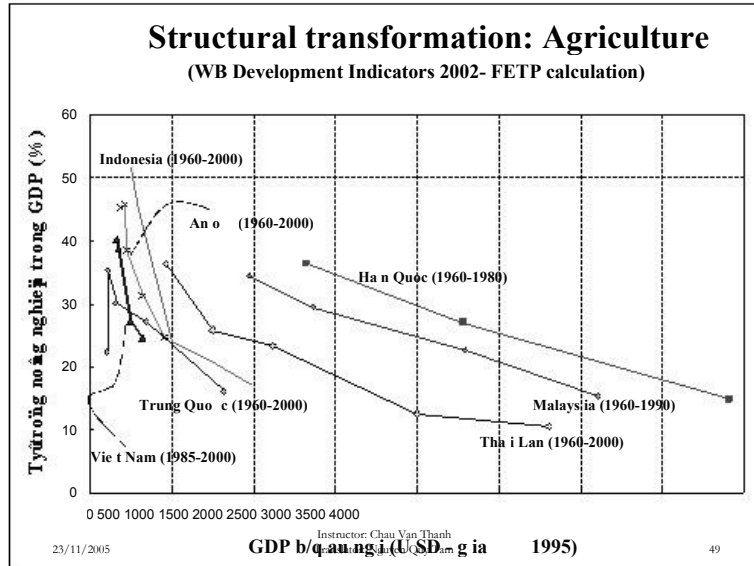
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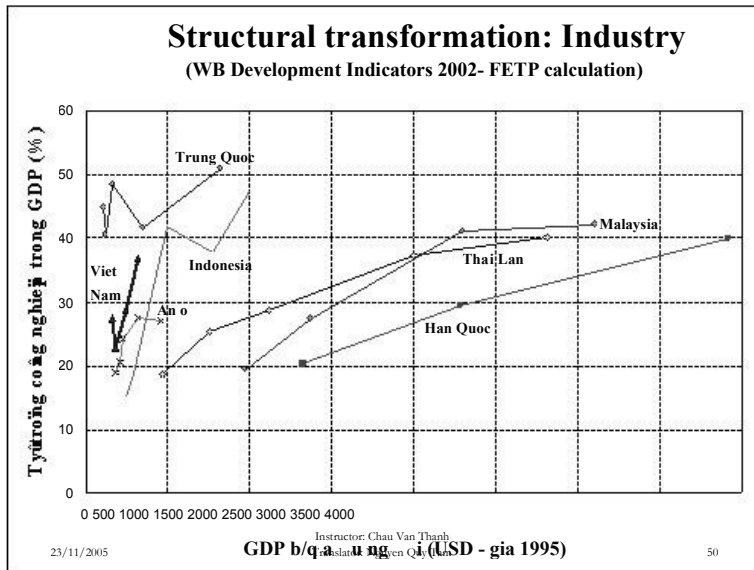
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Structural change models

Development patterns and Structural change

Hollis Chenery

Similarities (transitional period):

1. Changes in demand for consumption as income increases.
2. Increases in per capita output/income requires physical and human capital accumulation.
3. Similar access to technology.
4. Access and openness to trade.

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Structural change models**Development patterns and Structural change****Hollis Chenery**

Differences among countries:

1. Social goals policy choices
2. Geographical location and natural resources
3. Size of population and country
4. Access to foreign investment and trade
5. Physical and human capital necessary, not sufficient
6. Transformation - institutions, industrial and economic structure
7. Difference of similar factors over time

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International dependence theories

Growth/Transformation structure delusion (1970s).

Support of anti-globalization groups (1980s & 1990s).

Assumes that developing countries are:

controlled/surrounded by economic, political and institutional rigidity (internally and externally).
dominated / dependent on developed countries

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International dependence theories

Neocolonial dependence model

Relationships:

Rich v. poor

Development v. under-development

Inequalities

Center v. outside

parallel, dependent and cannot disappear.

Trouble caused by policies from developed countries.

Under-development is a phenomenon coming from outside.

I, S and education shortages are internal constraints.

Poor countries depend on rich countries that only exploit and do not cooperate.

(Free trade and bias policy for MNCs)

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International dependence theories

False paradigm model

Under-development due to international experts:

Misleading and inappropriate advice

Lack of understanding

Bias, experts serve interest groups
domestically and internationally

Stiglitz: The IMF has followed a one size fits all
approach

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International dependence theories

Dualistic development model

Superiority and inferiority co-exist

Rich country v. poor country

The rich v. the poor

Development v. under-development

Good v. bad

Such co-existence hardly harmonizes

Inherently increases overtime

Advanced countries cannot pull up developing
countries

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International dependence theories

Conclusion of the model

1. Markets do not operate well.
2. Developed countries are not role models.
3. Too much imbalance in international power.
4. Need to fundamentally and thoroughly reform institutions, economies and politics breaking imbalance of power globally.

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International dependence theories**Criticism**

1. Cannot explain how development is started and maintained (lessons from the 4 tigers).
2. Mixed development experience (Africa and East Asia).
3. Creates polarization of power in the world
4. Does not promote institutional, political, economic reform (nation, world) and creates trade protectionism.

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Neo-classical counterrevolution

Approach:

1. **Free market approach:** *No need for government intervention.*
2. **Public choice approach:** *Government intervention is not good.*
3. **Market-friendly approach:** *Imperfect markets: information shortage, externalities in skill creation, economies of scale idea of endogenous growth theory*

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Neo-classical counterrevolution

Neo-classical counterrevolution thoughts

Over-intervention (state ownership, barrier to trade and investment)

Wrong pricing policy (ineffective resource allocation)

Under-development

Growth evidence (closed / opened economy)

Implications:

Should allow market operation, free competition, role of private sector, openness to trade and foreign investment
faster growth

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Neo-classical counterrevolution

The free market approach argues that markets themselves are already efficient, competition is itself efficient if not perfect; technology is available and applicable at no cost; information is perfect and free. Thus any intervention from the government causes distortions and adverse effects. Therefore, government should minimize its intervention in economic activities.

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Neo-classical counterrevolution

Public choice approach denies the role of governments.

It argues that politicians, government officials, citizens and the state behave based on their own benefits. The net result would be a misallocation of resources and declines in personal freedoms.

Government should only concentrate on national security and defense.

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Neo-classical counterrevolution

WB-IMF approach: Government plays an important role in facilitating the operation of markets by correcting distortions or imperfections existing in markets in developing countries, it helps coordinate investment, protects the environment, and stabilizes the macroeconomic economy. Additionally, there should be institutions that concentrate on sustainable *development and help to ensure benefits for the poor.*

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Neo-classical counterrevolution Comments

1. The State and markets supplement each other.
2. Sustainable development: Several objectives.
3. Development policies are closely related.
4. Role of government needed but there is no common way for all governments.
5. Attitude and reform as important as policies.

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Globalization: All together or not at all

Horst Kohler, IMF-25/9/2003

We want to give greater emphasis to the domestic factors for economic growth, that is the social conditions and the small and medium-sized enterprises that create jobs. The motto of *More market, less government is also too simplistic*. Markets that operate smoothly need a government with a light touch, but above all one that works. They therefore need a government that can organize public services, such as law and order or a properly functioning fiscal administration.

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Neo-classical Growth The Solow Model

MH Solow(1956)

$(y=Y/L, k=K/L, y = f(k))$

1. Overcomes a weakness of the H-D model: COR unchanged
2. Steady state
3. Role of s and technology
4. Evidence: closed/open economies
5. Technological progress: exogenous variable
6. Solow residual $a = g_Y^{-w_K} g_K^{-w_L} g_L$

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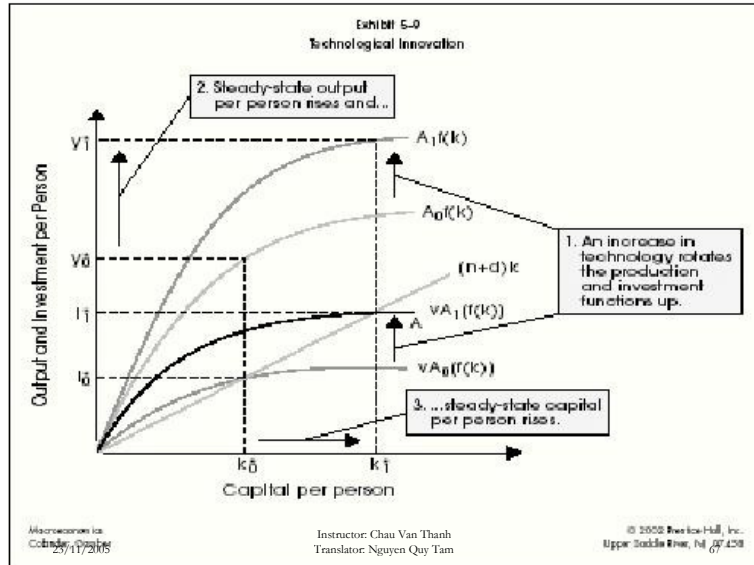
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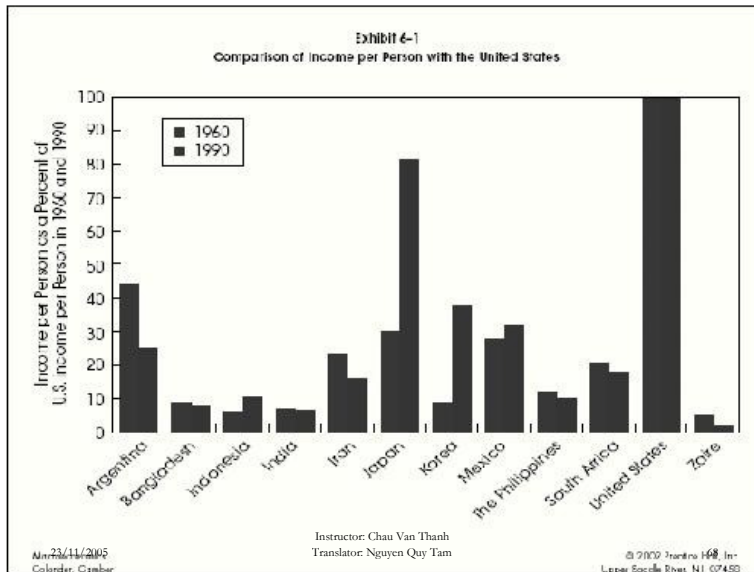
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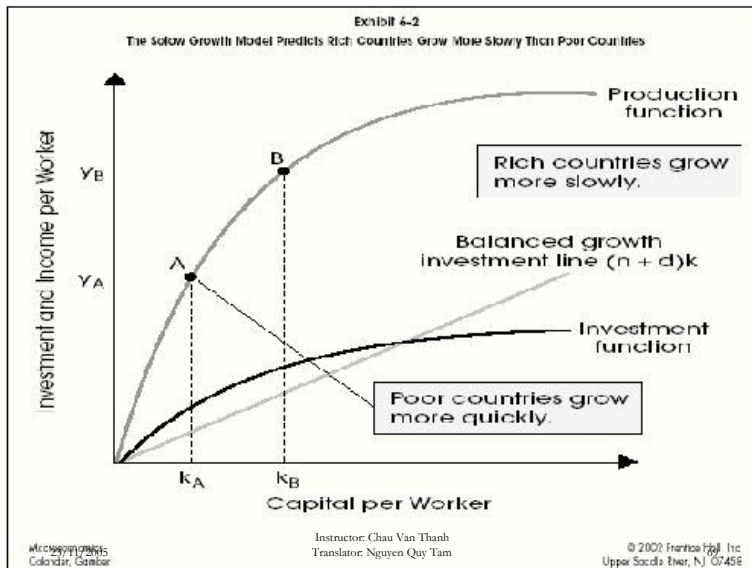


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Neo-classical Economics Comments

Many assumptions do not hold in developing countries:

Perfect markets.

Monopoly issues (and competition).

State ownership and profit maximization.

Information, externalities and economies of scale.

Domestic institutional development and international integration.

Thus, the neo-classical theory:

Provides instruments and analytical framework

Limited in terms of broader application.

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New growth model

Endogenous growth model

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Endogenous growth models

Explains technological change

Stresses roles of knowledge, human capital, R&D, increasing returns to scale.

Technological progress: (in simple terms)

1. Shift in production function.
2. Increase in skills, practices, new ideas, and effectiveness at work and production.

Model:

AK model: $y = Ak$ (all factors # capital, technological progress - externality)

R & D model: Technology such as production know-how, including knowledge foundation with research and implementation capacity

Learning-by-doing model

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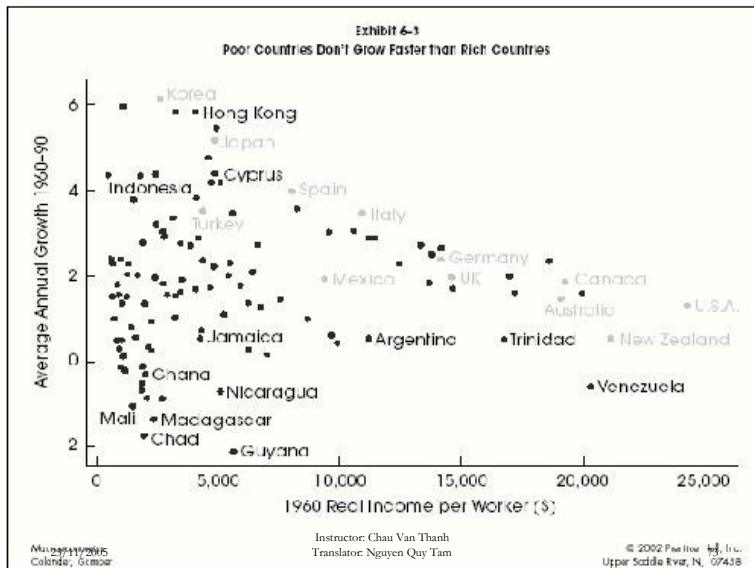
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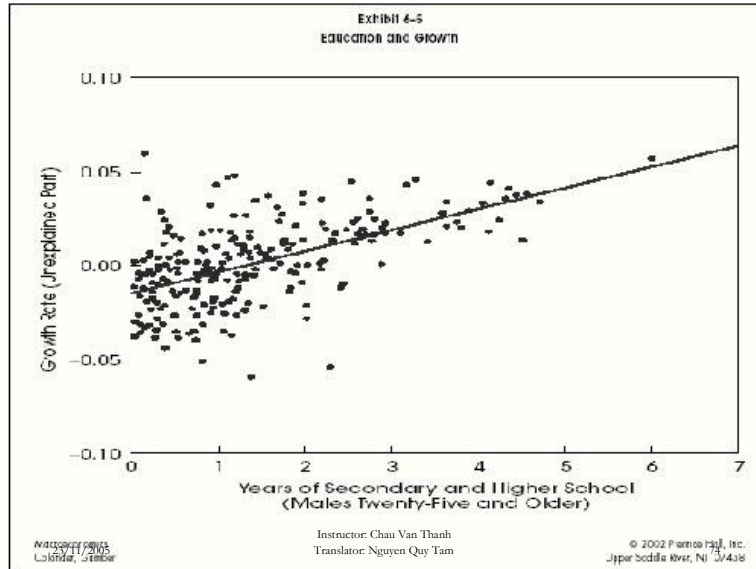
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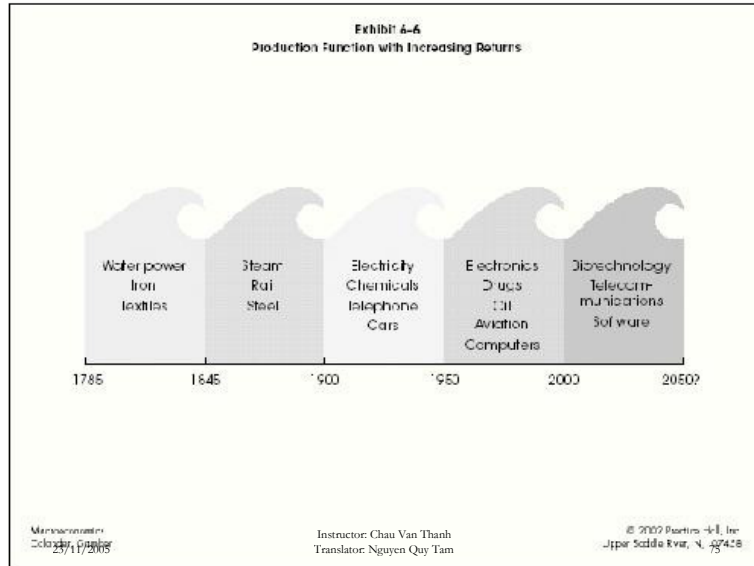
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Impact on long term growth How.

Fiscal policy:

- Public investment, infrastructure promote private I

- Health, education human capital

- Tax reform and tax rate cut

Stabilizes macro economy (avoids high inflation and large deficits)

Industrial policy promotes technology.

Openness to trade (gains, new technology exchange, specialization)

Openness to financial flows (international risk sharing, FDI and technology, management)

Financial institutions and development help mobilize funds.

Development of legal systems and institutions.

Political stability and consistent policies.

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Summary

<i>Model</i>	<i>Assumptions</i>	<i>Forecasting</i>	<i>Applications</i>
<p><u>Solow Growth Model:</u> <i>Long term, steady state model focuses on savings and investment ratio during growth</i></p>	<p>Supply determined by factors of production Supply generates demand Technology is exogenous Diminishing marginal returns Constant returns to scale</p>	<p>Growth rate = population rate Growth per capita will be zero Growth rate among nations will converge</p>	<p>Government should apply savings and investment policies. Nothing can be done to influence per capita growth in long term. Economy tends to move toward steady state.</p>
<p><u>New Growth Theory:</u> <i>Long term model focusing on technology progress and trade during growth</i></p>	<p>Supply generates demand Technology influenced by policies Increasing returns to scale</p>	<p>Policy can raise per capita growth Continuous growth associated with higher growth Rate of increase will accelerate over time Incomes of rich and poor countries may not converge</p>	<p>Government policies should: Promote technology development Reduce protectionism Reduce taxation ratio Promote privatization Promote industrial policy</p>

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Summary

1. Each model focuses on a different area.
2. No best and single model for all nations and all times.
3. Contradictory ideas and debate encourage studies of development economics.

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Linear growth models

Focuses on the role of savings and investment in the growth process.

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Lewis model

Importance of link between traditional
agricultural and modern industrial sectors.

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Chenery study

Clearly indicates features of development and transitional process in developed and developing countries, draws lessons from these trends for different countries.

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International dependence theories

Focuses on the vulnerability and dependence of developing countries to industrialized countries and international organizations.

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Neo-classical theories

Price system and property rights effective
production and distribution.

Highlights inefficient SOEs and failures of the
centrally planned system as well as distorted
price systems.

A government role is necessary for successful
development of some sectors.

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New growth model

Focuses on endogenous growth resources
explaining causes and experiences of long term
growth in both developed and developing
countries.

Highlights role of government policy.

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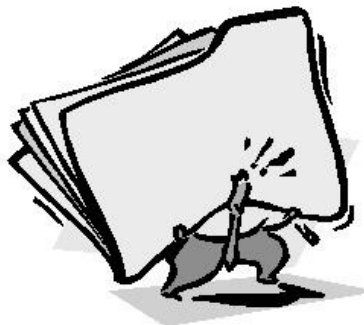
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*Economic development in East & Southeast
Asia:*
Old market models 1960-1997

How does this
system of theories
help explain the
following topics of
the course.



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Overall picture

Growth accounting

If K, L are not major causes, what are other factors.

Political stability

Provides incentives for investment.

Structural change

Shift of capital and labor highest productivity sector.

Resource endowment

The Dutch disease, corruption

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Overall picture

Government direct intervention

China, Korea model

Ethnic conflict

Malaysia, Indonesia model.

Financial system

Bubble burst and panic.

Income distribution

Poverty and growth impact.

Can growth reduce poverty.

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Economic Development II

Lecture 5

**Economic Development of East and
Southeast Asia:
The Old Market Models, 1960-1997**

Lecture 5:
Income Distribution and Poverty
Reduction

Tuesday, November 5, 2005

1

Outline of the session

The dominant theory about changing inequality as countries develop

The main measures of income inequality and poverty

The evidence on changing inequality and poverty in East Asia

How we account for this experience

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Lecture 5

Income Distribution and Poverty

Reminder: Income distribution and poverty
are not the same

Income distribution: relative measure

Poverty: absolute measure

In practice, changes in the two often go hand-
in-hand

3

Theory: Income Distribution and Growth

The Kuznets inverted U pattern

Named for Simon Kuznets

Key assumption: surplus labor conditions

Core idea: inequality first rises, then falls

The evidence: mixed

Inequality and savings/investment

Classical view, from Arthur Lewis

Key assumption: wealthy save more than poor

Core idea: inequality will contribute to growth

The evidence: not strong

4

Key measures: Inequality

The size distribution of income

The most direct way to look at income inequality

Measures the % of total income received by different groups in society

Data collected through a sample survey of households

Typically summarize by 10% or 20% categories (WB uses 20%, or quintiles)

Key advantage: can compare across countries

Key measures: Inequality

Size distribution of income: example

(low, med, high example)

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Key measures: Inequality

The Gini coefficient of inequality

Also called the Gini concentration ratio

Calculated from Lorenz curves, which plot the total income received by the cumulative percentage of recipients

Calculate by measuring the ratio of the shaded area to the entire triangle

Ranges from 0 1 (0=perfect equality)

In general: Low: $G < 0.4$ and High: $G > 0.5$

Key measures: Inequality

Example: % total income received by each income quintile

	Lowest 20%	Next 20%	Next 20%	Next 20%	Highest 20%
Viet Nam	7.8	11.4	15.4	21.4	44.0
Nigeria	4.0	8.9	14.4	23.4	49.3
Kenya	3.4	6.7	10.7	17.0	62.1

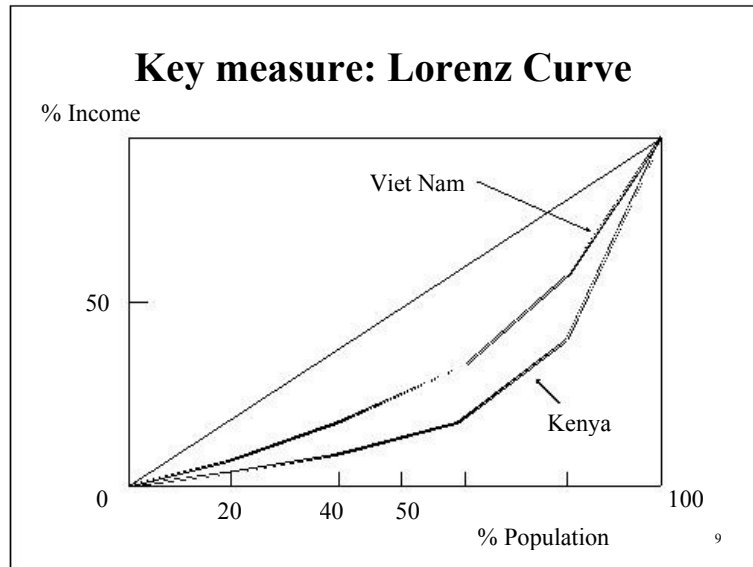
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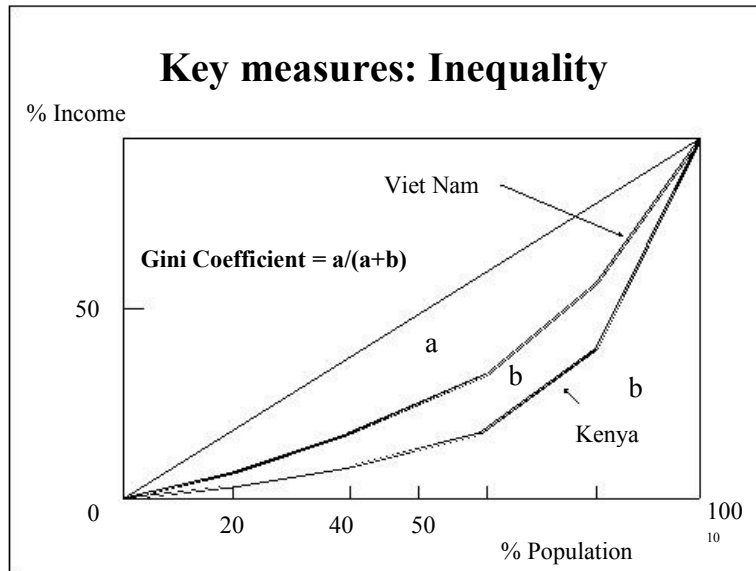
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Lecture 5

Key measures: Inequality

Example: % total income received by each income quintile

	Lowest 20%	Next 20%	Next 20%	Next 20%	Highest 20%	Gini Coeff.
Viet Nam	7.8	11.4	15.4	21.4	44.0	35.7
Nigeria	4.0	8.9	14.4	23.4	49.3	45.0
Kenya	3.4	6.7	10.7	17.0	62.1	57.5

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Key measures: Inequality

Caution:

The Gini coefficient, like Lorenz curve, is only as accurate as the original household data from which it is estimated

Given tendency to under-report income, inaccurate data is often a problem

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Key measures: Poverty

Income poverty v. consumption poverty

Consumption poverty focuses on the ability to consume necessary goods at a subsistence level

National v. international poverty lines

National poverty lines cannot be internationally compared

WB/UN agencies like to use \$1/person/day line

Alternative measures:

Human Development Index

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**Income distribution and poverty:
Trends in East Asia**

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Lecture 5

Trends in East Asia why.

Two important points:

1. Broad v. deep poverty

East Asia: broad, not deep

Africa/Latin America: deep, not broad

2. Political context

Post WWII: a strong need to establish political legitimacy in much of East Asia

Clearest example: Taiwan

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Trends in East Asia common policies

1. Broad based growth in agriculture

Majority of population in developing countries live and work in agriculture

Poorest people tend to live in rural/ag areas

Strong agricultural sector provides a solid foundation for overall growth

Policies:

Relatively equal land ownership

Government support for technological change

Investment in rural infrastructure

Avoidance of overvaluation of exchange rates and agricultural taxes

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Trends in East Asia common policies

2. Rapid employment growth in rural non-farm and urban areas

Related to strategy of export-led growth

Exceptions: Malaysia & Indonesias exports of primary industry (oil, rubber)

Rising demand for labor in export industries absorbed surplus labor and led to a rise in real wages

Best way to help the poor is to provide jobs

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Trends in East Asia common policies

3. Massive investment in basic social services, especially education

Key: universal primary education

Improvements in education eases the transition of workers from agriculture to non-agriculture

Ripple effects from education-health relationship

Development of human capital (less concentrated than physical capital)

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Trends in East Asia common policies

4. Limited and targeted interventions

Very few public interventions

Few labor protections

But: selected assistance:

Housing subsidies to very poor in Hong Kong

Publicly managed funds for certain population groups
in Malaysia

Most transfers were private, not public

Very important in allowing the elderly to share in
overall income increases

Conclusions

Rapid growth in East Asia was combined with improvements in income inequalities and falling poverty

Policies that fostered broad-based growth played a key role

The poverty that remains is the more difficult type to remove

The poorest people now are in the most remote areas, where land is unproductive and people are hard to reach

China is now a stand-out very rapid growth combined with increasing inequality

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Economic Development II

Lecture 6

**Economic Development of East and
Southeast Asia:
The Old Market Models, 1960-1997**

Lecture 6:
Population Transformation and Labor
Markets

Thursday, November 17, 2005

1

Outline of the session

Demographic transition and labor supply

Employment and growth: sectoral
transformation of labor

Labor reallocation: the Harris-Todaro
migration model

Structure of labor markets

Case for discussion: Migration and
urbanization in East Asia

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Lecture 6

Demographic transition and labor supply

Theory of Lewis labor surplus model

With surplus labor, workers can be shifted into industry from agriculture without rising wages

At the turning point surplus labor is absorbed and labor will begin to earn rising wages because it is a scarce factor in production

Implies that industrial growth can be achieved initially without much benefit to workers, but that growth will eventually benefit workers

3

Demographic transition and labor supply

Post WWII, developing countries experienced a demographic transition in which:

1. Declines in death rates + increases in life expectancy ~~increases~~ in population growth
2. Declines in birth rates ~~decreases~~ in population growth

Data on death rates and crude birthrates suggest significant variation in timing of transition across countries and regions

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Demographic transition in East Asia

Data suggest that East Asia went through the demographic transition early

This experience was a major factor in reducing the growth of labor supply

Reduction in labor growth combined with high demand for labor led to absorption of surplus labor in many East Asian countries

By late 1990s, not many countries had true surplus labor where $MP_{(labor)} = 0$.

5

Employment and growth: sectoral transformation of labor

The dominant pattern of changing sector shares of labor:

As with GDP shares, labor shifts from agriculture to industry and services as a country develops

In East Asia, the shift is clear between 1960-1996, though data show different country patterns

Rapid shift in some countries (Korea, Taiwan)

Slow shift in other countries (China, Viet Nam)

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Labor reallocation: Harris-Todaro migration model

Attempts to explain rural-urban migration in developing countries

Key assumption: potential migrants are rational decision-makers and respond to economic incentives

They make the decision to migrate based on the difference between urban and rural wages and the probability of obtaining an urban job

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Labor reallocation: Harris-Todaro migration model

Basic equation: $M_t = f(W_u, W_r)$

Where M_t = migrants in time t

W_u = urban wage; W_r = rural wage

But not everyone gets an urban job, so:

$$M_t = h * ((1 - u_u) * W_u) / W_r$$

Where u_u = urban unemployment rate

h = sensitivity factor

$((1 - u_u) * W_u)$ = the expected urban wage

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Labor reallocation: Harris-Todaro migration model

$$\text{H-T model: } M_t = h * ((1 - u_u) * W_u) W_r$$

Migration thus depends on 3 key factors:

Responsiveness of rural potential migrants

Urban unemployment

Urban/rural wage gap

Problems:

Too simple. When does migration stop.

Important push/pull factors

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Structure of labor markets

Underutilization of labor is common, and takes the form of disguised unemployment, rather than open unemployment

Major segmentation in urban labor markets from formal/informal sectors

Informal sector plays a key role in absorbing both rural migrants and new urban workers

Generally low wages due to relatively abundant labor, with much variation

Workers generally have low skills and low productivity

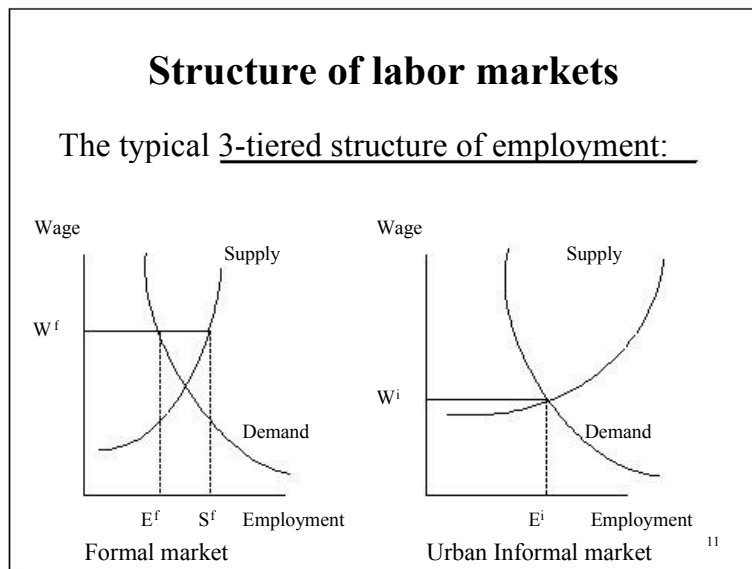
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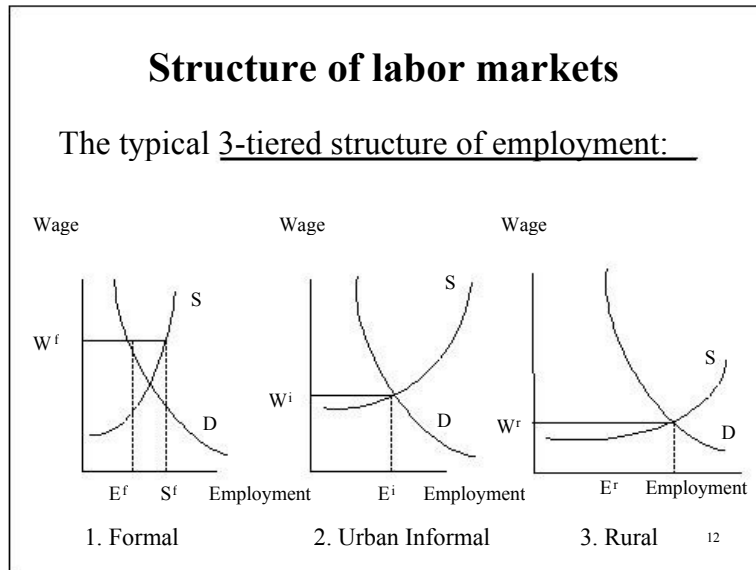
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Lecture 6





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Fulbright Economics Teaching Program
2005-2006

Economic Development II

Lecture 6

Labor markets in East Asia

Strong employment and wage growth

Labor policies were market-oriented

Wage-setting by governments was not
common

Governments created strong public work
forces

Governments resisted using rapid expansion
of public sector employment as a way to deal
with unemployment pressures

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Lora Sabin, Chau Van Thanh

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2005 - 2006

Economic Development I

Lecture 7

Economic Development in East Asia Fall 2005

Session 7: Wealth and Education
Friday, 18 November 2005

The Human Development Index (HDI)

The HDI is based on three indicators:

- Longevity, measured by Life expectancy at birth
- Educational attainment, measured by a combination of the adult literacy rate (2/3 weight) and the combined gross primary, secondary, and tertiary enrollment ratio (1/3 weight)
- Standard of living, measured by GDP per capita (PPP US\$)

To construct the HDI for a given country at a particular time: for each indicator, calculate the following index:

$$\text{Index} = \frac{\text{Actual value} - \text{minimum value}}{\text{Maximum value} - \text{minimum value}}$$

Where the minimum and maximum values are as follows:

Life expectancy

Life expectancy at birth: 25 years
 Adult literacy rate (age 15 and above): 0% and 100%
 Gross enrollment ratio: 0% and 100%
 GDP per capita (PPP US\$): \$100 and \$40,000 (PPP US\$)

Treatment of income: calculating the index for GDP is a little more complicated. The basic approach is driven by the fact that achieving a respectable level of human development does not require unlimited income. Thus, income is discounted as follows:

$$W(y) = \log y \frac{\log y_{(min)}}{\log y_{(max)} \log y_{(min)}}$$

A simple average of the three indicators is then calculated to construct the HDI.

Exercise: using the following data, calculate the HDI for the following 4 countries:

1998 Data				
Country	Life Expectancy (years)	Adult Literacy (% of pop > 15 years of age)	Gross Enrollment Ratio (all levels)	GDP p.c. (1998 PPP US\$)
South Korea	72.6	97.5	90.0	13,478
Thailand	68.9	95.0	61.0	5,456
Viet Nam	67.8	92.9	63.0	1,689
Lao	53.7	46.1	57.0	1,734

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2005-2006

Economic Development II

Lecture 7

**Economic Development of East and
Southeast Asia:
The Old Market Models, 1960-1997**

Lecture 7:
Wealth and Education
Friday, November 18, 2005

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Outline of the session

The role of education in economic development

Education and economic growth

Rising education levels in East Asia

How much should be invested in education.

Beyond growth the value of education

Conclusions and discussion

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The role of education in economic development

Increases in education leads to improvements
in Human Capital (Human K)

Human K is a major source of growth both in
the Solow-based sources of growth analysis:

$$G_y = (W_K * G_K) + (W_L * G_L) + a$$

And it has important spillover effects
(externalities) that help explain rapid growth
in endogenous growth models

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The role of education in economic development

By education what do we mainly mean.

Formal schooling is the most important form of investments in Human K:

Popular demand for formal schooling is very high because people believe in its benefits

Education and income levels are highly correlated at both individual and societal levels

Many resources are used to provide and acquire it

However, informal and on-the-job training are also important

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Economic Development II

Lecture 7

Education and economic growth: the evidence

The available data from studies in the 1990s suggested a positive relationship, but often a modest contribution

WB study (1993), explaining $G_{(GDP\ pc)}$ 1960-85:

Primary enrollment, 1960: + *

Secondary enrollment, 1960: + (not sig.)

Education attainment: + (not sig.)

ADB/HIID (1997), explaining $G_{(GDP\ pc)}$ 1965-90:

Schooling (years), 1965: + (not sig.)

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Education and economic growth: the evidence

More recent research has emphasized the quality
of education:

IMF (2005) study, explaining $G_{(\text{GDP pc})}$ 1960-90:

Both the quantity and quality of schooling
explained a substantial portion of the variation

Quality was measured by international test scores:

A single standard deviation difference was related
to a 1% difference in growth rates

Over 50 years, that is a 64% increase in GDP p.c.₆

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Lecture 7

Rising education levels in East Asia: the data

Enrollment ratios have risen significantly

Illiteracy levels have declined

Gender gaps have closed in illiteracy levels

Evidence that education-growth link works in both directions

There is significant variation, still, in all measures

Differences are not related to government spending

More needs to be done to:

Make sure all children go to school

Improve the educational status of girls and women 7

How much should be invested in education.

Human capital theory: individuals (or their governments) invest in education to raise their productivity and income

Involves comparing the costs and benefits of additional schooling:

$$NPV = \sum (E_t - C_t) / (1+i)^t$$

For societies, the decision should rest on the social costs and benefits, including externalities

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Beyond growth the value of education

Education is one of the three core measurements of the Human Development Index

Calculation of HDI (example)

Education has value beyond its contribution to economic growth

The externalities of education extend to such areas as health, social cohesion, leadership, capacity for innovation, and political participation

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Conclusions

Education plays a positive role in growth and development through the improvement of Human K, even if it is difficult to measure this contribution precisely

Education has undoubtedly contributed to growth and development in East Asia, and growth has helped people achieve higher educational levels

Quantity and quality of education matters

Beyond its role in economic growth, improvements in education have major externalities and add to the quality of life of citizens

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2005-2006

Economic Development I

Lecture 7b

Economic Development of East and Southeast Asia: The Old Market Models, 1960-1997

Lecture 7:
Key Sectors:
Agriculture
Tuesday,
November 29, 2005



Outline of the session

Why is agriculture special.

The role of agriculture in economic development

Improving productivity: incentives and production strategies

Agricultural price policy

East Asia: agricultural change

Discussion of agricultural change in Viet Nam

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2005-2006

Economic Development I

Lecture 7b

Why is agriculture special.



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Why is agriculture special.

It produces food, without which humans cannot live

It employs a high percentage of the workforce in developing countries

Land is a key factor of production

Agricultural technologies may be difficult to change rapidly, though changes do occur

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Lecture 7b

The role of agriculture in economic development

It provides food for the rural population as well as the urban population

Agricultural productivity growth is critical for economic development:

Must rise enough to feed a growing urban population or the terms of trade will turn against industry and hurt growth (remember the Lewis 2-sector model)

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The role of agriculture in economic development

Agriculture affects the standard of living of rural residents

Productivity growth can raise rural incomes (through higher outputs)

Prices for agricultural products can raise rural incomes (through higher price/output)

Tenure system and labor intensity will determine how much farmers benefit from productivity growth

Key factor: agriculture/input price ratio (P_{ag}/P_i)

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Lecture 7b

The role of agriculture in economic development

**Agriculture supplies the labor needed for
industrialization**

As the traditional sector, and the largest sector in
developing countries, agriculture provides the labor
for development of industry and services

Restrictions on the flow of labor from rural to
urban sectors can hamper economic development
and keep rural residents living in poverty

Examples: Serfs in pre-industrial Europe
China in the 1950s - 1970s

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The role of agriculture in economic development

Agriculture is a major source of capital for modern growth

Rural population savings and investment

Agricultural exports may contribute significant amounts of foreign exchange

Food exports as % of all exports

	1962	1975	1995
S Korea	42%	13%	2%
Thailand	54%	63%	19%
China	n/a	n/a	8%
All Low Y	47%	31%	20%

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The role of agriculture in economic development

The farming population provides an important market for other sectors:

Products from modern urban sector

Products from informal urban sector

One estimate is that each 1% of agricultural growth, on average, is associated with about 1% of non-agricultural growth (Harvard Institute of International Development)

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Improving productivity in agriculture: the role of incentives

Land tenure arrangements affect incentives to improve productivity:

Ownership or land-use rights reduces the free rider problem and discourages misuse

Small number of hired workers enables managers to measure workers performance more effectively

Long-term leases ensure that workers benefit from improved productivity

Family-owned farms may be ideal system

Except where mechanization has economies of scale₁₀

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Lecture 7b

Improving productivity in agriculture: production technologies

There is no single best
technology for all
countries

Choice of technology
depends on local
conditions:

- Soil conditions
- Weather
- Factor endowments (land,
labor, water)



Improving productivity in agriculture: production technologies

	Mechanical Package	Biological Package
Type of technology	Highly mechanized Uses more land, less labor	Uses improved seed varieties Requires chemical fertilizer, lots of water
Factor substitutability	Labor and machinery are highly substitutable	Water and chemical fertilizers are not very substitutable
Role in development	Releases labor for other uses	Permits increases in productivity

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Lecture 7b

Agricultural price policy

Role of agricultural prices:

Ag price/input price affects what and how farmers produce

Determines farmers incomes

Affects urban living standards

May earn profits for government

Role of subsidies:

May benefit urban or rural residents

Role of exchange rates

Overvalued exchange rates hurts agricultural exports

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The role of agriculture in economic development

Key questions:

Is it strategically important for a country to be self-sufficient in food.

For national defense.

To reduce vulnerability from rising food prices.

Does it depend on the country. (S Korea/Viet Nam)

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Economic Development I

Lecture 7b

The role of agriculture in economic development

Key questions:

Why do we have food
crises and famines.

Production problem
or distribution problem.

Can they be prevented.

How.



East Asia: agricultural change

Data suggest:

Agriculture sector grew at high rates during period of rapid economic growth

Agriculture grew more slowly than overall GDP, but steady growth helped achieve growth and rising living standards

Helped reduce poverty, inequality

Helped improve food consumption, health, longevity, investments in education among rural population

Released labor for urban sector

Kept urban food prices low and stable

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Explaining East Asias agricultural performance

Government policies were a major factor

Either actively promoted agriculture (Indonesia) or
did relatively little damage, despite taxation
(Taiwan, S. Korea, Thailand)

Fostered relatively equal land ownership

Government support for technological change

Spreading the benefits of the green revolution
(biological package) by supporting the transfer of
knowledge from research to farmers

Increasing and broadening of rural extension services

Explaining East Asias agricultural performance

Government policies were a major factor

Investment in rural infrastructure

Roads, irrigation, health facilities, schools

Avoidance of overvalued exchange rates that
would hurt agricultural exports

Avoidance of heavy taxation

Most direct and indirect tax rates were 2-30% on
average, compared to 50% or higher in Africa

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Explaining East Asias agricultural performance

Role of Z-goods

Low-paying activities in rural sector such as repairs, transport, trade

Surplus labor involved in producing Z-goods

Growth in agriculture helps shift labor from agriculture to urban sector and from Z-goods to agriculture

Investment in rural infrastructure helps increase productivity (and wages in) some Z-goods, I.e., transport

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Discussion: Agriculture in Viet Nam

What have been the major changes in Viet Nam's agriculture sector since the late 1980s.



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Lecture 7b

Viet Nam: major changes in agriculture since late 1980s

Decollectivization of agriculture

Opening of markets

Liberalization of trade

Fourfold real increase in government spending in agriculture, with irrigation and flood control a major emphasis

Reduction in direct taxes on land, imports

Reduction in indirect taxation from overvalued exchange rates

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Agriculture in Viet Nam: results

Rapid growth of paddy rice output

Rapid growth in exports of rice and other products:

Coffee, tea, black pepper, seafood

Falling fertilizer/paddy price ratio, to the benefit of farmers

Increased rural-to-urban migration

Improved rural standard of living

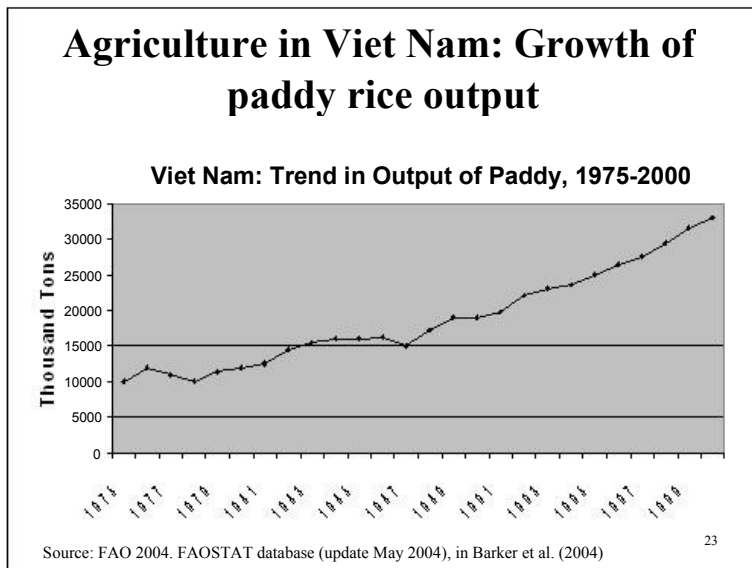
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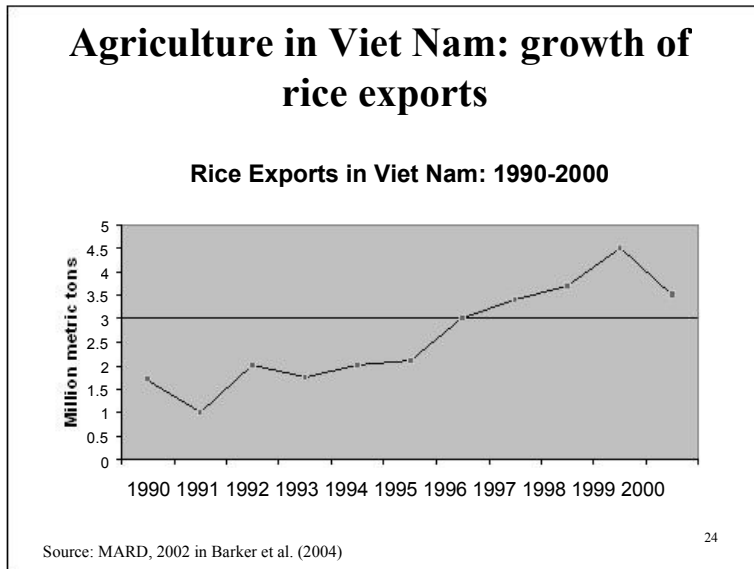
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Lecture 7b





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Lecture 7b

Agriculture in Viet Nam: falling input/rice price ratio

Nitrogen (from urea)/ paddy price ratio:	<u>Year</u>	<u>Ratio</u>
	1990	6.7
	1991	4.6
	1992	4.6
	1993	3.3
	1994	4.1
	1995	3.9
	1996	3.6
	1997	3.4
	1998	2.3
	1999	2.4
	2000	3.3

Source: Government Price Committee, in Barker et al. (2004)

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Agriculture in Viet Nam

What are the biggest challenges now facing Viet Nams agricultural sector.



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Economic Development I

Lecture 7b

Agriculture in Viet Nam

Issues:

- Quality of exports: rice, coffee
- Falling world prices for key VN exports
- Irrigation and water management
 - Conflicting demands over water and water quality
- Continued protection of SOEs/industry
- Low investment in research and extension
- Poor rural credit markets
- Others.

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Agriculture in Viet Nam: Falling world prices for VN exports

	1994	1996	1998	2000	2001
<i>Value of exports in US\$ million</i>					
Rice	429	1,024	1,025	638	588
Coffee	328	594	585	440	385
Seafood	551	858	971	1,475	1,800
Petroleum	866	1,232	2,092	3,175	3,175
Total Exports	4,054	9,365	11,540	14,500	15,100
<i>Average Freight-on-Board export price in US\$ per ton</i>					
Rice	220	273	227	184	166
Coffee	1,853	1,555	1,215	600	423
Petroleum	125	101	141	205	187

Source: Ministry of Finance, Viet Nam, in Barker et al. (2004)

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Fulbright Economics Teaching Program
Academic year 2005-2006

Economic Development in East
and South East Asia I

Problem set 1

Fulbright Economics Teaching Program

Economic Development in East and South East Asia I Fall term, 2005

Problem set 1

Due date: 8:20 am, Nov. 8, 2005

Question 1: Concepts

Describe the following concepts based on your own understanding and explanation. Do not copy from the readings.

- a. Economic growth
- b. Economic development
- c. Sustainable economic development

Question 2: Commentary

Briefly comment on the following issues or questions:

- a. Why are there countries that grow faster than the others.
- b. How come some relatively poor East Asian countries in the 1960s achieved fast growth and were able to catch up with medium

- 300 high income countries within
 c. Will poor countries pull alongside with the rich. If so, how.

Question 3: Growth and income distribution

Given the following data

	1975	1990	2005	Note
GDP indicator	100	.	.	If growth is 10% per year and no redistribution
Where: 20% the poorest recipients	4	.	.	
GDP Indicator	100	.	.	If growth is 4% per year and no redistribution
Where: 20% the poorest recipients	8	.	.	
GDP Indicator	100	.	.	If growth is 10% per year and no redistribution
Where: 20% the poorest recipients	8	.	.	

According to your calculations for the cells containing question marks,

- a. Can growth help improve income and poverty.

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Academic year 2005-2006

Economic Development in East
and South East Asia I

Problem set 1

- b. Is there any relationship between growth and equity.

Question 4: Growth rate

	<i>Income per capita (dollars)</i>	<i>Growth rate (%)</i>
Country A	550	8
Country B	1290	9

- a. Suppose population growth rates of the two countries are 1.5%. Calculate per capita income gap of two countries after 20 years.
- b. Growth scenarios of one country are given by:

<i>Scenario</i>	<i>Income per capita (USD) initial</i>	<i>Annual growth rate (%)</i>	<i>Income per capita (USD) after 10 years</i>	<i>Income per capita (USD) after 30 years</i>
(I)	500	5.5	.	.
(II)	500	6.5	.	.
(III)	500	7.5	.	.
(IV)	500	8.5	.	.

Given population growth rate is 1.5%. Compare the computing results and derive conclusions.

conclusions
from

Question 5: Converting income under NER (nominal exchange rate) and PPP (purchasing power parity)

Suppose the US and country A produce two product and service as follows:

	US		Country A			
	Quantity	Price (USD)	Value	Quantity	Price (A dollar)	Value
Oil (million ton)	200	400 USD/ton	80000	16	8000 AD/ton	
Retailing (million people)	4	10000 USD/people/year		.10		100000 AD/people/year
Total GDP (in domestic currency)						

Note:

Oil is a tradable good

Retailing is considered a non-tradable good

NER is officially determined based on price of the tradable good

Calculate:

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Fulbright Economics Teaching Program
Academic year 2005-2006

Economic Development in East
and South East Asia I

Problem set 1

- Official nominal exchange rate of country A in USD
- GDP of A in USD using the exchange rate in (a)
- GDP of A according to its output and US per unit price (i.e. GDP in terms of PPP)
- PPP under the official nominal exchange rate. Give your comments.

Question 6: ICOR and Vietnam Economy

Given the following data:

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004			
GDI/GDP (%)	31.7	31.2	34.6	32.4	32.8	32.9	34.0	36.0	35.8	36.3			
ICOR	3.3	3.4	4.2	5.6	6.9	4.8	4.9	5.1	4.9	4.7			

Source: Economic Research, 7-2004, TBKTSG, 2004-05

- Calculate annual GDP growth rate.
- Give your comment on economic implications of changes in Vietnam economy's ICOR during this period.

Question 7: Lewis Model

W Arthur Lewis described the turning point in his two-sector model with surplus labor. In your opinion, is Vietnam enjoying surplus of labor in agricultural sector during its industrialization. If necessary, what kind of information and simple calculations that you need

to

Question 8: Solow Growth Model

your

argument

From Solow equation of growth accounting:

- a. Distinguish between growth in terms of capital-widening and capital-deepening.
- b. What are the two approaches in measuring capital contribution to growth.
- c. Specifically, what is in-depth growth. How should one achieve such growth.
- d. An economy as described in the Solow model is in steady state with n is the annual population growth rate and equal 1.0%; g is the annual technological change and equal 2.0%. Total output and capital stock increase at 3.0%/year. Suppose further that capital output ratio is 0.4. Use growth accounting equation to decompose output growth rate into 3 sources capital, labor and total factor productivity and determine contribution of each source to this output growth.

Question 9: Endogenous growth model

- a. Briefly describe the key idea of the new growth model - Endogenous growth model.
- b. From the reading: East Asian Innovation the future of growth, Chapter 1: *Economic changes and policy implications in East Asia, Implication for development policy section, p. 26-30, what can you learn from Vietnams development policy.*

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Fulbright Economics Teaching Program
Academic year 2005-2006

Economic Development in East
and South East Asia I

Problem set 1

Question 10: Vietnam Economy

- a. What is your opinion when some researchers say that Vietnam economic growth rate is not correspondent with its potential.
- b. Is the current policy of the Vietnamese Government that pursues high economic growth contradictory to requirement of sustainable economic development.

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Fulbright Economics Teaching Program
Academic year 2005-2006

Economic Development in East
and South East Asia I

Problem set 4

Fulbright Economics Teaching Program ,
Fall Semester, 2005-06

**Economic Development In East and Southeast Asia:
The Old Market Models**

PROBLEM SET 4

Tuesday, 29 November 2005

Due back: 06 December 2005

This problem set is based on the reading by Dwight Perkins that was assigned for Lecture 7: Agriculture, Declining Growth in Farm Output and Employment: Implications for Chinas Economy and Society.

In 6-8 pages, please discuss the following:

- a. What are the major challenges currently faced by Chinas agriculture sector and the people who live and work there. How are these similar to or different from what we would expect from available theories and the experience of nearby countries. Based on your knowledge, how are these different than the general trends and challenges in Viet Nams agriculture sector.
- b. What does the author argue about the likelihood of a food crisis in China.
Do you agree. Is the

Do you agree. Is the situation similar in Viet

Nam? If you were a policy maker in China, what would you do to address what the author calls the true nature of the crisis in rural China. What problems would you anticipate in implementing your ideas.

In writing up this problem set, please feel free to use data as you like, but your words and arguments are the most important part of the problem set. You may also discuss your ideas with other participants, but must write up your own paper. This is a chance for you to explore a very important aspect of economic development in the context of a major developing country in Asia, and to make some comparisons with Viet Nam. We hope you take advantage of the chance to do some original and creative thinking.

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Fulbright Economics Teaching Program

*Economic Development of East & Southeast Asia :
The Old Market Models*

**Fulbright Economics Teaching Program
Academic Year 2005-2006
Fall Term**

**SYLLABUS
Economic Development of East and Southeast Asia
The Old Market Models, 1960-1997 ¹**

Teaching Team

Instructor: Lora Sabin (Email: lsabin@bu.edu)
Chau Van Thanh (Email: thanhcvt@fetp.vnn.vn)
Tutor: Nguyen Hoai Bao (Email: baonh@fetp.vnn.vn)
Vo Tat Thang (Email: thangvt@fetp.vnn.vn)
Translator/interpreter: Nguyen Quy Tam (Email: quytam@fetp.vnn.vn)

Class

Class**Schedule**

1. Tuesday: Lecture from 08:30 am to 11:00 am
2. Thursday: Lecture from 08:30 am to 11:00 am
3. Friday: Review/discussion from 03:15 pm to 04:45 pm

Office Hours

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	
Chau Van Thanh	16:30-18:00			16:30-18:00			
Nguyen Hoai Bao							
Vo Tat Thang			17:30-19:00			17:30-19:00	

In addition to class schedule, participants are encouraged to use office hours set by the teaching team members for more detailed discussion or clarification of interest/unclear issues. Participants can make appointments with members of the Teaching Team for other convenient schedule.

¹Course content and lecture design are inherited from the analyzing framework and teaching curriculum of Fulbright Economics Teaching Program with contribution from professors Dwight Perkins and David Dapice

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Fulbright Economics Teaching Program

*Economic Development of East & Southeast Asia :
The Old Market Models*

Objective

The course is designed to provide a broad historical overview of the economic development and changes that have been experienced in East and Southeast (E&SE) Asia over the past four decades, focusing on the period before the Asia financial crisis of 1997. The teaching team decided to name this course as the old Market Models. The main targets of lectures and discussions are to analyze the sources and results from these changes, and to draw lessons for late industrialized countries, including Vietnam.

This course is a half-semester and is the first part of the Economic Development in E&SE Asia. It will provide the basis for studying the second part in the Winter term, so-called Post Crisis East Asia - The New Development Models.

Course Description

The course comprises of four parts: (1) The patterns and sources of growth in E&SE Asia; (2) The Consequences of growth: income distribution, poverty, and labor markets; (3) Key Sectors and their Changing Contribution to Growth; and (4) Managing E&SE Asia's economic development.

Participants will be introduced economic development theories in order to discuss socio-economic transformations, the role of the government in managing economic development, and experiences of Japan, South Korea, Taiwan, Malaysia, Thailand, and

China. Consequences of development models will be analyzed and compared to the aspects and positive arising from rapid development will be precious lessons for future industrialized countries.

Requirement

The course will continuously introduce and explain more economic concepts and issues. Yet, to easily follow the course, participants must be equipped with microeconomics, macroeconomics, and econometrics. Knowledge of history and economic development of E&SE Asia countries is also useful.

Lectures and seminars will be the teaching format. During seminars, the class will be divided into groups, in which each group will make presentation on a particular issue assigned or own-chosen. In addition, participants are asked to discuss implications of the E&SE Asian development experience for Vietnam.

Reference of the course materials and contents can be found in www.fetp.edu.vn

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Fulbright Economics Teaching Program

*Economic Development of East & Southeast Asia :
The Old Market Models*

Readings

Main Textbook

Gillis, Perkins, Roemer and Snodgrass, *Economics of Development*, W. W. Norton, Fourth Edition, 1996 or Fifth Edition, 2001 (English version) and Second Edition (Vietnamese version).
Hendrik Van Den Berg, *Economic Growth and Development*, McGraw-Hill, 2001 (English version)

Other Readings

See specific readings in the Class Schedule.

Websites

publications.worldbank.org/ecommerce/ (*publications of the World Bank*)
www.imf.org/external/pubind.htm (*publications of the IMF*)
<http://www.adb.org/> (*Asian Development Bank*)
<http://www.stern.nyu.edu/globalmacro/> (*Global Macroeconomic and Financial Policy*)
<http://www.idrc.ca/library/world/> (*International Development Research Center*)
<http://www.ids.ac.uk/eldis/eldis.html> (*ELDIS: The Electronic Development and Environment Information System*)
www.worldbank.org.vn/welc/report.htm (*www.worldbank.org.vn/Vietnamese/*

welc/report.htm - vietnamese version)
~~Publications of the World Bank in Vietnam~~
www.undp.org.vn/efault.htm (www.undp.org.vn/vfault.htm - Vietnamese version)
(publications of UNDP in Vietnam)

Requirements to participants

Participants are required to attend class regularly, read the assigned readings before class, actively participate in class discussions and complete all course requirements, such as assignments and exams. Participants are welcome and encouraged to meet with teaching team members to discuss any aspect of the course.

Course Assessment

Beside group report(s), there are six problem sets/policy papers, one mid-term exam and one final exam. Class active participation will be counted in the grading of discussion/participation/group presentation criteria. The exams will be based on information presented in all lectures, required readings, and group discussions. No materials or books are allowed in exam rooms.

There will be two policy papers (among six problem sets/papers) during the entire course. Each paper has no more than 5 typed pages of A4, which describes key points, the analysis and policy recommendation based on context and specific issues of Vietnam.

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These can be national, industrial or individual firm issues. The paper must be presented as an official report. The best four of these papers will be posted on the programs website.

Grading structure:

Problem sets 20%

Policy paper/participation/group presentation 20%

Mid-term exam 30%

Final exam 30%

<i>Assignments</i>	<i>Distributing date</i>	<i>Due date</i>	<i>Exam Date</i>
Problem set 1	Nov. 01	Nov. 08	
Problem set 2	Nov. 08	Nov. 15	
Problem set 3 (optional)	Policy paper	Nov. 22	
<i>Midterm Exam</i>			<i>Nov. 24, 2005</i>
Problem set 4	Nov. 29	Dec. 06	
Problem set 5	Dec. 06	Dec. 13	
Problem set 6 (optional)	Policy paper	Dec. 20	
<i>Final Exam</i>			<i>Dec. 20, 2005</i>

Class Schedule

Part 1:**The Patterns and Sources of Growth in East and South East Asia**

WEEK 09

Lecture 01 (Tuesday, Nov. 02)**Introduction to economic development****Theories of economic growth and development (1)**

Required Readings: Shahid Yusuf, et. Al., Innovative East Asia: The future of growth,
Ch. 1.

Hendrick Van Den Berg, Economic Growth and Development,
McGraw-Hill, 2001, Chapter 1 (The important of Economic
Growth)

Chau Van Thanh, Theories of Economic Growth and Development,
Lecture notes.

Recommended readings:

Gillis, Perkins, Roemer and Snodgrass, Economics of Development,
W. W. Norton, 1996. Ch. 2 (English), Ch. 2&3 (Vietnamese).

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Problem Set 1: Distributed Due date: Nov. 08.

Lecture 02 (Thursday, Nov. 04)

Theories of economic growth and development (2)

Preparation for Friday, Nov. 04 seminar, participants are required to read lecture of Prof. Anthony Saich on Chinas Economic Development Policy

Required reading: Video Transcript of Prof. Anthony Saich, Chinas Policy

Review/seminar (Friday, Nov. 04)

Watch and discuss the video lecture of Prof. Anthony

WEEK 10

Lecture 03 (Tuesday, 8 Nov.)

The growth records and sources of growth in East Asia

Required Readings: Alwyn Young, The Tyranny of Numbers: Confronting the Statistical

Realities of *Journal of Economics*, August 1995, Vol. CX, Issue 3,
 pp. 644-678.
 Asian
 The Economist, Asia's Precarious Miracle, Mar. 1st & 7th, 1997.
 Experience,
 World Bank, *The East Asian Miracle* (Oxford: Oxford University
 Press, 1993), Chapter 1.

Chau Van Thanh / Nguyen Xuan Thanh, Sources of growth in
East Asia, Lecture notes

Problem Set 2: Distributed Due date: Nov. 15

Lecture 04 (Thursday, Nov. 10)

Structural change: Patterns of Growth

*Required Readings: Gillis, Perkins, Roemer and Snodgrass, Economics of
 Development, W. W. Norton, 1996, Fourth Edition, Chapter 3.*

H. Chenery, S. Robinson and M. Syrquin, *Industrialization and
 Growth: A Comparative Study* (Oxford: Oxford University Press,
 1986) Part I.

Chau Van Thanh / Nguyen Xuan Thanh, *Structure
 transformation and development pattern, Lecture notes.*

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Preparation for Friday, Nov. 11 seminar, participants are divided into groups of major economic zones.

Review/Seminar (Friday, Nov. 11)

Discussion on sources and patterns of growth in East Asia

Role of institutions in development

Case study: Growth engine reasons for uneven-development

Required Readings: Douglas C. North, Institutions, Institutional Change and Economic Performance, Cambridge University Press, 1990, Chapter 1.

David Dapice, Bui Van, Pham Anh Tuan, Nguyen Dinh Cung, 2004, *History or Policy: Why Dont Northern Provinces Grow Faster.*

Part 2:

The Consequences of growth: income distribution, poverty, and labor markets

WEEK 11

Lecture 05 (Tuesday, Nov. 15)**Income distribution and poverty reduction**

Required readings: Gillis, Perkins, Roemer, and Snodgrass, Economics of Development (1996), chapter 4.

The World Bank, World Development Report 2000/2001: *Attacking Poverty (2001), Chapter 4: Making Markets Work Better for Poor People*, pp. 61-76.

Recommended readings:

The World Bank, World Development Report 2005: *A Better Investment Climate for Everyone (2004), Chapter 1: The Investment Climate, growth, and poverty*, pp. 19-35.

The World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy (2002), Overview and Chapter 1*, pp. 1-51.

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Hendrik Van Den Berg, *Economic Growth and Development*
(2001), chapter 13: Costs of Economic Growth.

Problem Set 3: Policy Paper optional Due date: Nov. 22

Lecture 06 (Thursday, Nov. 17)

Population transformation and labor markets

*Required readings: Gillis, Perkins, Roemer, and Snodgrass, Economics of
Development (1996), chapters 8 & 9.*

The World Bank, *World Development Report 2005: A Better
Investment Climate for Everyone (2004), Chapter 7: Workers and
labor markets*, pp. 136-156.

Recommended readings:

Alan de Brauw, Jikun Huang, Scott Rozelle, Linxiu Zhang, Yigang
Zhang, *The Evolution of Chinas Rural Labor Markets during the
Reforms*, Working Paper No. 02-003, March 2002

Review/Seminar (Friday, Nov. 18)

Week 6

**wealth
and
Education**

Required readings: Galor, Picketts, Roemer, and Snodgrass, Economics of Development (1996), chapter 10.

WEEK 12

Mid-term Review (Tuesday, Nov. 22)

Mid-term Exam (Thursday, Nov. 24)

Review/Seminar (Friday, Nov. 25)

Mid-term exam discussion

Discussion on Chinas Exchange Rate Policy and development issues.

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Part 3:

Key Sectors and their Changing Contribution to Growth

WEEK 13

Lecture 07 (Tuesday, Nov. 29)

Key sectors: Agriculture

Required readings: Gillis, Perkins, Roemer, and Snodgrass, Economics of Development (1996), chapter 16 (Agriculture).

D.H. Perkins, Declining Growth in Farm Output and Employment: Implications for Chinas Economy and Society (unpublished paper), 2002.

Problem Set 4: Distributed Due date: Dec. 12

Lecture 08 (Thursday, Dec. 01)

Key sectors: Natural Resources or

**Managing
an
open
economy
(1)**

Required Readings: *Gillis, Perkins, Roemer and Snodgrass, Economics of Development, W. W. Norton, 1996, Fourth Edition, Chapter 20* (English version), chapter 20 (Vietnamese version)

Gillis, Perkins, Roemer and Snodgrass, Economics of Development, W. W. Norton, 1996, Fourth Edition, Chapter 17 (English version), chapter 19 (Vietnamese version)

Chau Van Thanh, Managing An Open Economy Lecture notes.

Chau Van Thanh, Corden Model Lecture notes.

Review/Seminar (Friday, Dec. 02)

Part 4:

Managing E&SE Asia's economic development

WEEK 14

Lecture 09 (Tuesday, Dec. 06)

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Managing an open economy (1)

Problem Set 5: Distributed Due date: Dec. 13

Lecture 10 (Thursday, Dec. 08)

Health and Development

Required readings: Gillis, Perkins, Roemer, and Snodgrass, Economics of Development (2001, fifth edition), Chapter 10 (Health and Nutrition). Vietnamese version of the second edition can be found in the library.

Sen, A. 1999. Health in Development, Bulletin of the World Health Organization 77 (8), pp. 619-623.

Report of the Commission on Macroeconomics and Health, *Macroeconomics and Health: Investing in Health for Economic Development (2001), Executive Summary of the Report, pp. 1-19*

Recommended readings:

Report of the Commission on Macroeconomics and Health, *Macroeconomics*

~~Dev Health~~ (2001), *The Commission Report*, pp. 21-128.
Investing in Health
~~for Economic~~ Edward Miguel, Health, Education, and Economic Development,
Health and Economic Development: Findings and Policy
Implications (2005), chapter 6, pp. 143-168.

Preparation for Friday, Dec. 09 discussion (Participants will read and study applications of the given case).

Review / Seminar (Friday, Dec. 09)

WEEK 15

Lecture 11 (Tuesday, Dec. 13)

**The move from central planning to market instruments
And the mixed market command model**

*Required readings: Gillis, Perkins, Roemer, and Snodgrass, Economics of Development (1996), chapter 5 (Markets versus Controls).
Vietnamese version of the second edition can be found in the library.*

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D. Perkins, Industrial and Financial Policy in China and Vietnam: A New Model or a Replay of the East Asian Experience, in J. Stiglitz and S. Yusuf, Rethinking the East Asian Miracle (2001), pp. 247-289.

Li-min Hsueh, Chen-kuo Hsu, and Dwight H. Perkins, Industrialization and the State: The Changing Role of the Taiwan Government in the Economy, 1945-1998, Chapter 3, pp. 51-83.

Recommended readings:

Li-min Hsueh, Chen-kuo Hsu, and Dwight H. Perkins, Industrialization and the State: The Changing Role of the Taiwan Government in the Economy, 1945-1998, Chapter 2, pp. 11-50.

The World Bank, The East Asian Miracle, Chapters 2-4, pp. 79-155.

Problem Set 6: Policy paper optional Due date: Dec. 20

Lecture 12 (Thursday, Dec. 15)

The East Asia Crisis and implications for Vietnam

Required readings: Perkins, Radelet, Snodgrass, Gillis, Roemer, Economics of Development

*Development,
Fifth*

~~Joseph~~ Stiglitz, What I learned at the world economic crisis,
New Republic Online, April 17, 2000.

chapter

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Rudi Dornbusch, Stiglitz vs. the IMF: Another View, email
response to Stiglitz article.

Review / Seminar (Friday, Dec. 16)

Review for Final Exam

WEEK 16

Office hours (by all members of the Teaching Team, Monday, Dec. 19)

Problem Set 6 due date and Final Exam (Tuesday, Dec. 20)

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