

International Economics

Academic year 2018-2019

Advanced Development Macroeconomics

EI054 - Autumn - 6 ECTS

Course Description

The objective of this course is to provide students with an in-depth coverage of the most relevant topics in development macroeconomics. The seminar is for PhD students and open to MIS in International Economics with professors' approval. Classes consist of lectures as well as of presentations and critical discussions on selected articles.

> PROFESSORS

Ugo Panizza
ugo.panizza@graduateinstitute.ch

Martina Viarengo
martina.viarengo@graduateinstitute.ch

[Office hours](#)

Syllabus

Classes will have two formats: Taught classes and Seminar Style. During taught classes, the professor will deliver traditional lectures, in seminar style classes, students will present papers. All students will also need to read Jonathan Schlefer (2012) *The Assumptions Economists Make*, Harvard University Press

Evaluation

The course grade will be based on a closed book final exam (70% of the grade), quality of class presentation (15% of the grade), class participation (5% of the grade), and a written review of "The Assumptions Economists Make" (10% of the grade, the review needs to be emailed to Ugo Panizza by January 9).

The final exam will be comprehensive (i.e., it will include all the material covered in class, including the starred readings). The review (1000-1500 words) needs to summarize the main message of the book and discuss what students liked and did not like about the book. We will check for plagiarism.

Topics and tentative class schedule

Economic Growth and Poverty Traps

1. Introduction/Organization & Solow-Ramsey-Diamond. Taught (Romer Chapters 1 and 2) UP (September 24)

2. **Introduction and Solow-Ramsey-Diamond (continued).** Taught (Romer Chapters 1 and 2) UP (October 1)
3. **Facts.** Seminar Style. Jones and Klenow (2016), Klenow and Rodríguez-Clare (1997), Mankiw, Romer and Weil (1992) MV (October 8)
4. **Endogenous Growth.** Taught (Romer Chapter 3) UP (October 15)

Institutions Culture, Reputation and Financial crises

5. **Institutions, democracy, and education.** Seminar Style. Cantoni et al. (2018), Acemoglu et al. (2011), Banerjee and Iyer (2005), Acemoglu et al (2001). MV (October 22)
6. **Standard models of culture and reputation.** Seminar Style. Enke (2018), Alesina and Giuliano (2011), Fernandez and Fogli (2009), Fisman and Miguel (2007), MV (October 29)
7. **Financial crises.** UP (November 5) Either taught or seminar style (depending on nr of students)
Readings TBA

Poverty Traps and Inequality

8. **Poverty traps.** Seminar Style. Kline and Moretti (2014), Parente and Prescott (1994), Kremer (1993), Murphy, Shleifer, and Vishny (1989) MV (November 12)
9. **Inequality: Theory.** Seminar Style. Alesina and Angeletos (2005), Galor and Moav (2004), Persson and Tabellini (1994), Galor and Zeira (1993), MV (November 19)
10. **Inequality: Empirics.** Seminar Style. Marrero and Rodriguez (2013), Easterly (2007), Banerjee and Duflo (2003), Forbes (2000) MV (November 26)

Inflation and Debt

11. **Monetary policy with low and high inflation.** Taught (Romer Chapter 11) UP (December 3)
12. **Sovereign debt.** UP (December 10) Either taught or seminar style (depending on nr of students)
Readings TBA

Final Exam on December 17, 2018

Readings (* means required; * are the papers that have to be prepared for the class presentations according to the schedule above)

Textbook:

David Romer, Advanced Macroeconomics, 4th Edition.* Chapters 1-2-3-11

Papers:

Economic Growth

- Banerjee, Abhijit and Esther Duflo (2005), "Growth Theory through the Lens of Development Economics", Handbook of Economic Growth, Vol. 1A, eds. Philippe Aghion and Steven Durlauf, Amsterdam: Elsevier, 473-552.
- Jones, Charles and Peter Klenow (2016) "Beyond GDP? Welfare Across Countries and Time," American Economic Review 106(9), 2426-2457.*
- Mankiw, N. G., D. Romer, and D. Weil (1992) "A Contribution to the Empirics of Economic Growth," Quarterly Journal of Economics, 107(2), 407-437.*
- Klenow, Peter and Andrés Rodríguez-Clare, 1997. "The Neoclassical Revival in Growth Economics: Has It Gone Too Far?," NBER Chapters, in: NBER Macroeconomics Annual 1997, Volume 12, pages 73-114 National Bureau of Economic Research, Inc. *
- Caselli, Francesco, (2005) "Accounting for Cross-Country Income Differences," Handbook of Economic Growth, in: Philippe Aghion and Steven Durlauf (ed.), Handbook of Economic Growth, edition 1, volume 1, chapter 9, pages 679-741.
- Acemoglu, Daron (2009) Introduction to Modern Economic Growth (Princeton UP). Chapter 1: "Economic Growth and Economic Development: The Questions".
- Solow, Robert (1956) "A Contribution to the Theory of Economic Growth," Quarterly Journal of Economics 70: 65-94.
- Romer, Paul (1990) "Endogenous Technological Change," Journal of Political Economy.
- Lucas, Robert (1988) "On the Mechanics of Economic Development," Journal of Monetary Economics.

- Romer, Paul (1986) "Increasing Returns and Long-Run Growth," *Journal of Political Economy*.
- Blanchard, O., and S. Fischer (1989) "Lectures on Macroeconomics" MIT Press, Cambridge, MA. [overlapping generations, chapters 2-3].

Poverty Traps

- Michael Kremer (1993) "The O-Ring Theory of Economic Development" *Quarterly Journal of Economics*, CVIII, 551-75. *
- Kevin Murphy, Andrei Shleifer, and Robert Vishny (1989) "Industrialization and the Big Push" *Journal Political Economy*, 100(3-26), 97(5).*
- Parente, S.L. and E. Prescott (1994) "Barriers to Technology Adoption and Development" *Journal of Political Economy*, 102(2): 298-321.*
- Rosenstein-Rodan, P. (1943) "Problems of Industrialisation in Southern and Southeastern Europe" *Economic Journal*, 53, 202-211.
- Lewis, W. A. (1954), "Economic Development with Unlimited Supplies of Labour", *The Manchester School*, XXII(2), 139-191.
- Azariadis, C. and A. Drazen (1990) "Threshold Externalities in Economic Development" *Quarterly Journal of Economics*, CV, 501-526.
- Durlauf, Steven (1996), "A Theory of Persistent Income Inequality", *Journal of Economic Growth*, 1(1), 75-93.
- Kline P. and E. Moretti (2014) "Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority", *Quarterly Journal of Economics*, 129 (1): 275-331.*

Institutions and Economic Development

- Acemoglu, Daron, Simon Johnson, and James Robinson (2001), "Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5): 1369-1401.*
- Banerjee, Abhijit and Lakshmi Iyer (2005), "History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India", *American Economic Review*, 95, 1190-1213.*
- Glaeser, Edward, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer (2004) "Do Institutions Cause Growth?" *Journal of Economic Growth*, 9: 271-303.
- Acemoglu, Daron, Simon Johnson, James A. Robinson and Pierre Yared, (2008), "Income and Democracy," *American Economic Review*, American Economic Association, 98(3), pages 808-42, June.
- Daron Acemoglu, Simon Johnson, and James Robinson (2005), "Institutions as the Fundamental Cause of Long-Run Growth," *Handbook of Economic Growth*.
- Acemoglu, Daron, Simon Johnson, and James Robinson (2002), "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution", *Quarterly Journal of Economics*, 117(4), 1231-1294.
- Acemoglu, Daron, Davide Cantoni, Simon Johnson and James A. Robinson (2011), "The Consequences of Radical Reform - The French Revolution", *American Economic Review*, 101(7): 3286–307.*
- Martinez-Fritscher Andre, Aldo Musacchio and Martina Viarengo (2014), "Colonial Institutions, Trade Shocks, and the Diffusion of Elementary Education in Brazil, 1889-1930," *Journal of Economic History*, 74(3): 730-66.
- Acemoglu, Daron, Jacob Moscona and James A. Robinson. (2016), "State Capacity and American Technology: Evidence from the Nineteenth Century" *American Economic Review*, 106(5): 61-67.
- Cantoni, Davide, Jeremiah Dittmar, and Noam Yuchtman (2018), "Religious Competition and Reallocation: The Political Economy of Secularization in the Protestant Reformation" *Quarterly Journal of Economics*, in press.*

Inequality and Economic Development

- Marrero G.A. and J.G. Rodriguez (2013), "Inequality of Opportunity and Growth", *Journal of Development Economics*, 104(C): 107-122.*
- Oded Galor and Joseph Zeira (1993) "Income Distribution and Macroeconomics," *Review of Economic Studies*, 60(1): 35-52.*
- Torsten Persson and Guido Tabellini (1994) "Is Inequality Harmful for Growth?" *American Economic Review* 84(3): 600-621.*
- Roberto Perotti (1996) "Growth, Income Distribution, and Democracy: What the Data Say" *Journal of Economic Growth*, 1(2): 149-187.
- Abhijit Banerjee and Esther Duflo (2003) " Inequality and Growth: What Can the Data Say?" *Journal of Economic Growth*, 8(3): 267-99.*
- Oded Galor and Omer Moav (2004) "From Physical to Human Capital Accumulation: Inequality and the Process of Development," *Review of Economic Studies*, 71(4): 1001-1026.*
- Oded Galor, Omer Moav and Dietrich Vollrath, (2009) "Inequality in Landownership, the Emergence of Human-Capital Promoting Institutions, and the Great Divergence," *Review of Economic Studies*, 76(1): 143-179.

- Roberto Perotti (1993) "Political Equilibrium, Income Distribution, and Growth," *Review of Economic Studies*, 60(4): 755-76.
- William Easterly (2007) "Inequality Does Cause Underdevelopment: Insights from a New Instrument," *Journal of Development Economics*, 84(2): 755-776. *
- Kristin Forbes (2000) "A Reassessment of the Relationship between Inequality and Growth," *American Economic Review*, 90(4): 869-887. *
- Roland Benabou, (2002) "Tax and Education Policy in a Heterogeneous-Agent Economy: What Levels of Redistribution Maximize Growth and Efficiency?," *Econometrica*, 70(2): 481-517.
- Alberto Alesina and George-Marios Angeletos (2005) "Fairness and Redistribution: US vs. Europe," *American Economic Review*, September, 95: 913-35.*
- Benabou, Roland, 2005. "Inequality, Technology and the Social Contract," *Handbook of Economic Growth*, in: Philippe Aghion and Steven Durlauf (ed.), *Handbook of Economic Growth*, edition 1, volume 1, chapter 25, pages 1595-1638 Elsevier.
- Alberto Alesina and Dani Rodrik (1994) "Distributive Politics and Economic Growth," *Quarterly Journal of Economics*, 109(2), 65-90.
- Inklaar, Robert, and D. S. Prasada Rao (2017) "Cross-Country Income Levels over Time: Did the Developing World Suddenly Become Much Richer?" *American Economic Journal: Macroeconomics*, 9 (1): 265-90.
- Raj Chetty and Nathaniel Hendren (2018) "The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects", *Quarterly Journal of Economics*, 133(3): 1107-62.

Culture and Reputation

- Miguel, Edward and Ray Fisman (2007): "Corruption, Norms and Legal Enforcement: Evidence from Diplomatic Parking Tickets," *Journal of Political Economy*, Vol. 115(6), pp. 1020-1048. *
- Raquel Fernandez, A. Fogli (2009): "Culture: An Empirical Investigation of Beliefs, Work, and Fertility," *AEJ: Macroeconomics*, Vol. 1(1), pp. 146-177. *
- Guiso, L., P. Sapienza, and L. Zingales (2006): "Does Culture Affect Economic Outcomes?" *Journal of Economic Perspectives*, Vol. 20, pp. 23-48.
- George Akerlof, Rachel E. Kranton (2000): "Economics and Identity," *Quarterly Journal of Economics* (2000), Vol. 115(3), pp. 715-7532.
- Tirole, Jean (1996): "A Theory of Collective Reputations (With Applications to the Persistence of Corruption and to Firm Quality)," *Review of Economic Studies*, 63(1): 1-22.
- Avner Greif (1993): "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition." *American Economic Review*, 83(3): 525-548.
- Banerjee, Abhijit and Esther Duflo (2000): "Reputation Effects and the Limits of Contracting: A study of the Indian Software Industry," *Quarterly Journal of Economics*, 115(3): 989-1017.
- Alesina, Alberto and Paula Giuliano (2011), "Family Ties and Political Participation", *Journal of the European Economic Association* 9(5): 817-39.*
- Nunn, N. and L. Wantchekon (2011), "The Slave Trade and the Origins of Mistrust in Africa", *American Economic Review*, 101(7): 3221-3252.
- Grosjean, Pauline (2014), "A History of Violence: The Culture of Honor as a Determinant of Homicide in the US South", *Journal of the European Economic Association*, 12(5): 1285-1316.
- Desmet, Klaus, Ignacio Ortuno-Ortin, and Romain Wacziarg (2017) "Culture, Ethnicity, and Diversity", *American Economic Review*, 107 (9): 2479-13.
- Guiso, Luigi, Paola Sapienza and Luigi Zingales (2015), "Corporate Culture, Societal Culture, and Institutions." *American Economic Review*, 105(5): 336-39.
- Enke, Benjamin (2018), "Kinship Systems, Cooperation and the Evolution of Culture", *CESifo Working Paper No. 6867*.*
- Bandiera, Oriana, Myra Mohnen, Imran Rasul and Martina Viarengo (2018) "Nation-Building through Compulsory Schooling during the Age of Mass Migration," forthcoming in the *Economic Journal*.

Inflation, Debt, and Crises

- Cristina Arellano (1998) "Default Risk and Income Fluctuations in Emerging Economies," *American Economic Review*, June 2008. *
- Eaton, Jonathan & Gersovitz, Mark, 1981 "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies* vol. 48(2), pages 289-309.*
- Cole, Harold L & Kehoe, Patrick J, 1998. "Models of Sovereign Debt: Partial versus General Reputations," *International Economic Review*, vol. 39(1), pages 55-70.*
- Paul Krugman (2010) "Crises" <http://www.princeton.edu/~pkrugman/CRISES.pdf> *
- Aghion, Philippe & Bacchetta, Philippe & Banerjee, Abhijit, 2001. "Currency crises and monetary policy in an economy with credit constraints," *European Economic Review*, vol. 45(7), pages 1121-1150.*

- Roberto Chang & Andrés Velasco, 2001. "A Model Of Financial Crises In Emerging Markets," The Quarterly Journal of Economics, vol. 116(2), pages 489-517.
- Morris, Stephen & Shin, Hyun Song, 1998. "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks," American Economic Review, vol. 88(3), pages 587-97.*
- Obstfeld, Maurice; 1994, "The Logic of Currency Crises," Cahiers Economiques et Monetaires, Bank of France, Vol. 43, pp. 189-213.*
- Barry Eichengreen, Andrew K. Rose, and Charles Wyplosz (1995) Exchange Market Mayhem: The Antecedents and Aftermath of Speculative Attacks. *
- Guillermo A. Calvo (1995) VARIETIES OF CAPITAL-MARKET CRISES <http://www.iadb.org/res/publications/pubfiles/pubWP-306.pdf> *
- R. Dornbusch "A Primer on Emerging Market Crises". *
- Rüdiger Dornbusch & Ilan Goldfajn & Rodrigo O. Valdés, 1995. "Currency Crises and Collapses," Brookings Papers on Economic Activity, vol. 26(2), pages 219-294. *
- Ugo Panizza, Federico Sturzenegger and Jeromin Zettelmeyer, 2009. "The Economics and Law of Sovereign Debt and Default," Journal of Economic Literature, vol. 47(3), pages 651-98.*