AAE 731: Frontiers of Development Economics II

Offered: Fall 2021  
Classes: TR 9:30-10:45  
Credits: 3  
Instructor: Ian Coxhead, ian.coxhead@wisc.edu  
Location: B30 Taylor Hall, if in person

Course Description
Theory and evidence on growth and development in emerging economies, with primary focus on globalization, trade, labor markets and human capital. We use open-economy general equilibrium models to examine welfare implications of global shocks and domestic economic policies.

Learning Outcomes
- Be familiar with the general equilibrium approach to problems of economic growth and development.
- Understand intersectoral linkages in factor and product markets as well as the constraints imposed by resource endowments, international markets, and domestic technology and preferences.
- Be able to parse the economic effects of exogenous events such as resource export booms, world market shocks and domestic policy innovations on prices, sectoral production, investment incentives, incomes and income distribution, and key measures of poverty and household welfare.
- Be able to interpret the implications of these results for long-run economic growth and development, including some political economy aspects.
- Understand and work creatively with models of international trade and globalization insofar as they inform the development process.

Overview
In this course we study economic development at the scale of the national economy. Our goal is to understand the processes and problems of economic growth and development in lower-income economies, especially as affected by their interactions with the global system of international trade and factor flows.

We begin by reviewing foundational models of aggregate economic growth, structural change, and the distribution of income, with particular focus on these processes as they occur in small open economies. Given initial dependence of many such countries on the exploitation of natural resource endowments and exports of products from these, we devote substantial attention to the macroeconomic and sectoral effects of resource export booms and busts. Subsequently, we address international integration and sectoral growth, especially agricultural development and industrialization; labor markets and migration, and the acquisition and application of human capital.

The scope of development economics as a field is vast, so achieving depth in any sub-field requires the sacrifice of some breadth. We focus on the application of analytical general equilibrium models, an approach that yields important insights but which competes with time spent on statistical hypothesis-testing. In practice, the tradeoff between ex ante theory and examination of evidence will be finessed in part by concentrating on theory in class, while providing the opportunity to examine empirical evidence through short assignments, student-led discussions and a term paper.

Getting started
The course makes extensive use of neoclassical trade theory to motivate and construct general equilibrium models. To work with these, I assume familiarity with the dual approach to optimization, especially the derivation and properties of cost and revenue (i.e. restricted profit) functions. If you need to brush up on these, consult Varian: Microeconomic Analysis. The basics of international trade models will be covered in class, but if you haven't taken at least an intermediate course in international economics, then you will need to study Dixit and Norman, Theory of International Trade (1980, Ch. 2), and/or R. Feenstra, Advanced International Trade (2004, Chs. 1–3). They cover the basic theorems upon which the relevant parts of neoclassical trade theory are built.

Ultimately, the only way to acquire familiarity with development economics as a field is to read—a lot. The North-Holland Handbooks of Development Economics is a great introduction to the literature, as are parts of the North-Holland Handbooks of Economic Growth. These can be accessed electronically through the UW library system. You should also subscribe to both the Development Economics and International Trade working paper series at ssrn.com; this will result in almost daily emails containing titles and abstracts of newly released papers in these fields.
Prerequisites
Econ 709 and 711 or equivalent, and AAE642. If you haven’t completed these courses, you need my consent to register for the course.

Texts
There is no single textbook. The course will draw on a variety of papers, journal articles and excerpts from books, all of which will be assigned at varying levels of ‘requiredness’ during the semester. Nearly all are readily accessible as electronic documents either directly or through the UW library system. I'll provide links where possible, but tracking down material is ultimately your responsibility.

Assessment
Assessment will consist of a mix of short assignments combining in-class oral presentations accompanied by written reports, a substantive midterm problem set, preparation for and participation in each class, and a research paper, which you will propose, discuss and present in class during the last part of the semester. An indicative grading structure might be:

- In-class presentations and short written reports (3 @ 10) 30
- Problem set 20
- Attendance and participation 10
- Research paper, incl. related in-class work 40
- Total 100

Grading will follow the scale A=93-100%, AB=88-92%, B=83-87%, BC=78-82%, C=70-77%, D=60-69%, F=0-59%.

Consultation
Due to coronavirus-related restrictions, office hours and other consultations will be online by default; in-person meetings are possible. Please email or talk with me to arrange a meeting. You can email with questions at any time.

Policy on Student Concerns/Complaints
Any student who has a concern or complaint specific to an experience in this course should first talk with the instructor. If the solution is still not satisfactory, you should follow the UW grievance procedures.

Policy on Academic Integrity
We all make mistakes sometimes, but plagiarism—the deliberate appropriation of another’s work without due citation and acknowledgment—counts as academic misconduct and attracts a mandatory penalty. It's also really dumb, mainly because when you copy the work of others you deprive yourself of a learning opportunity. Because plagiarism is an act of laziness, it is almost always super-easy to detect. So turning in plagiarized work is like saying “I'm lazy, you're stupid.” Of course, with more time and effort you could conceal it better, but in that case why not spend the time doing original work instead?

If you have any questions about appropriate conduct, please see me and/or and refer to the complete UW statute on academic misconduct.

Students with Disabilities or Special Needs
The McBurney Disability Resource Center, 263-6393, provides academic support services to students with disabilities. Students seeking accommodation should contact the center and request assistance as early as possible, preferably at least eight weeks prior to the date of anticipated need. It is your responsibility to inform me, in a timely manner, of any request for accommodation.
AAE 731: Frontiers of Development Economics II, Fall 2021

Class Schedule

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<thead>
<tr>
<th>Topic</th>
<th>Approximate dates</th>
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<tbody>
<tr>
<td>Introduction</td>
<td>Sep. 8</td>
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<tr>
<td>Growth, trade and development: theory and evidence (7 classes)</td>
<td>Sep. 13 – Oct. 4</td>
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<td>Aggregate growth and productivity</td>
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<td>Economic structure and growth</td>
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<tr>
<td>Trade-theoretic approach to development issues (5 classes)</td>
<td>Oct 6 – Oct. 20</td>
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<td>Small open economies</td>
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<td>Resources, trade and development</td>
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<td>Research paper proposals: in-class presentations</td>
<td>Oct. 25</td>
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<tr>
<td>Contemporary development challenges (10 classes)</td>
<td>Oct. 27 – Dec. 1</td>
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<td>Globalization and industrial growth</td>
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<td>Labor mobility and human capital</td>
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<td>Intergenerational transmission of gains from growth</td>
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<td>Other topics by request and class consent</td>
<td>(Nov. 24)</td>
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<tr>
<td>(Thanksgiving break, no class)</td>
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<tr>
<td>Research paper presentations (4 classes)</td>
<td>Dec. 6 – Dec. 15</td>
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Readings by Topic

I will indicate primary readings, which you should study before the relevant class. Other references are "recommended," or will serve as sources for background/broader reading. If you have trouble finding or accessing any reference let me know.

Fun and/or useful reading - any time


GROWTH, TRADE AND DEVELOPMENT

Aggregate growth models and evidence

Growth models


Evidence


Broader reading:


Structural change and development


Broader reading:


DEVELOPMENT IN OPEN ECONOMIES: RESOURCES, TRADE AND DEVELOPMENT

Building blocks: basic trade models and core theorems


**Broader reading**


**CONTEMPORARY DEVELOPMENT CHALLENGES**

Globalization and the developing countries


Pavcnik, N, 2017. The impact of trade on inequality in developing countries. NBER WP 23878.


**Industrialization and global production systems**


**International financial flows and real economic growth and development**


**Labor, human capital and migration**


Intergenerational transmission of gains from growth and globalization


