

Ricardo Hausmann
Professor of the Practice of Economic Development
Office: Rubenstein-414
Email: ricardo_hausmann@harvard.edu

Assistant: Margarita Navarro (617-495-7579)
Margarita_navarro@ksg.harvard.edu

Teaching Fellow: Hannah Bowen

Meet Time: M/W 10:10 – 11:30 (Starr Auditorium)
Review F 8:40 – 10:00

PED – 130
Why are so Many Countries Poor, Volatile and Unequal?

Description

Why are so many countries poor, volatile and unequal? This course will describe these three salient and interrelated characteristics of developing countries, study their proximate and deeper causes and discuss the policies that have been proposed to deal with them. The first part of the course will deal with the determinants of the level of development and growth and the strategies that have been proposed to accelerate growth. The second part will review the evidence on the magnitude and causes of inequality. The third part of the course will deal with the causes and consequences of macroeconomic volatility and crises and will discuss the policy and institutional implications.

Audience

This course is envisioned for the student who may one day be involved in economic policymaking, in business, or in finance in developing, emerging or transition countries as well as in international financial institutions. The course is taught in a fairly non-technical manner, but previous exposure to macroeconomics and microeconomics is strongly recommended. Students without previous exposure to economics need permission from the instructor. This course is appropriate for students who want a broad introduction to the themes and issues that are currently at the center of the policy debate in countries that have yet to achieve the status of developed countries. The theoretical literature will be presented with an emphasis on the conceptual and policy implications. Classes will be a combination of lectures with discussion. Students will be expected to have done the readings before each class, and to come to class prepared. Students will work in teams and follow two countries of their choice throughout the course.

Grading

Students will be required to work on 5 problem sets (70 percent) and a final paper (30 percent) throughout the course. Problem sets require the student applying the material to the two countries they will follow explaining the determinants of the level of income, growth, volatility and inequality as well as the salient areas for policy reform. Students will select countries based on their own particular interests provided that the necessary data is available and those countries are developing countries.

Materials

The course does not have a main textbook. It is based mostly on a collection of papers. However, the following books will be used extensively (listed here by use ranking) and are available at the COOP and Harvard Libraries:

William Easterly, 2001, *The Elusive Quest for Growth*, Cambridge, MA. MIT Press.

Elhanan Helpman, *The Mystery of Growth*, Cambridge, MA. MIT Press.

World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform*, 2004 (available on line at <http://www1.worldbank.org/prem/lessons1990s/>)

Readings will be available in course packets in the Course Materials Office (CMO). However, most of the readings are accessible through the Internet. The links are attached to the text in this file.

Here are some links additional links that you may find useful:

The online service provided by the library is at http://lib.harvard.edu/e-resources/type/electronic_journals/

National Bureau of Economic Research (NBER): <http://www.nber.org>

International Monetary Fund <http://www.imf.org>

World Bank: <http://www.worldbank.org>

Inter-American Development Bank: <http://www.iadb.org/oce/publications.htm>

Older published papers are available through <http://www.jstor.org>, many recent working papers are also available at <http://www.ssrn.com>. Good resources are available at The Economic Growth Resources at <http://hicks.nuff.ox.ac.uk/economics/growth/> and the World Bank's Economic Growth Research at <http://www.worldbank.org/research/growth/>

Part I: Economic Growth And Development

Lecture 1. Wednesday, September 10

The Stylized Facts: Income, Volatility, Inequality

* Maddison, Angus 2001. [*The World Economy: A Millennial Perspective*](#), OECD Development Centre Studies, Introduction, Summary and Ch. 1. (Also skim Appendix A).

* Easterly 2001), Chapter (1)

* World Bank (2004), [Part I](#) : FACTS OF THE 1990s

* David L. Lindauer and Lant Pritchett, "[What's the Big Idea? The Third Generation of Policies for Economic Growth.](#)"

Lecture 2. Monday, September 15

How Economists Think About Growth and Development (the Solow Model)

* Helpman, (2004), Chapter 1-3.

* Easterly (2001), Chapter 2.

* Mankiw, Gregory N. 2002. *Macroeconomics*. Worth Publishing; 5th edition. Chapters 7, 8. (**course packet**)

Lecture 3. Wednesday, September 17

Demography, Education and Growth

* Bloom, D.E., Williamson, J.G. 1997. "[Demographic Transitions and Economic Miracles in Emerging Asia.](#)" *NBER Working Paper No. W6268*, November.

* Inter-American Development Bank. 2000. "[Demography, Threat or Opportunity.](#)" *Development beyond Economics: Economic and Social Progress Report*, Chapter 2. Washington, DC.

* Pritchett, Lant. 1996. "[Where Has All the Education Gone?](#)" World Bank, Policy Research Department, Working Paper # 1581.

Behrman, J. R.; Duryea, S.; Székely, M. 1999. "[Decomposing Fertility Differences Across World Regions and Over Time: Is Improved Health More Important than Women's Schooling?](#)" IDB WP-406.

Attanasio, O.P. and Szekely, M. 2000 "[Household saving in Developing Countries – Inequality, demographics and all that: How different are Latin America and South East Asia?](#)", IDB WP 427.

Lecture 4. Monday, September 22 Trade and Growth

* World Bank (2004), Section 5, [Trade Liberalization: Why So Much Controversy?](#)

* Frankel, Jeffrey and David Romer, "Does Trade Cause Growth?" *American Economic Review*, June 1999, 89(3), 379-399. (Draft at <http://papers.nber.org/papers/w5476>)

* Rodriguez, F. and Rodrik, D. 1999 "Trade Policy and Economic Growth: A Skeptic's Guide to Cross-National Evidence" NBER Working Paper No. W7081, available at <http://papers.nber.org/papers/W7081.pdf>.

Sachs, Jeffrey and Andrew Warner, "[Economic Reform and the Process of Global Integration.](#)" *Brookings Papers on Economic Activity*, 1995:1, 1-118.

Braun, Matías, Ricardo Hausmann and Lant Pritchett (2002) "The Proliferation of Sovereigns: Are there Lessons for Integration." Working Paper, May.

Lecture 5. Wednesday, September 24 Geography and Development

* Gallup, J. and J. Sachs. 1998. "[Geography and Economic Development](#)," *Annual World Bank Conference on Development Economics 1998*.

* Diamond, J. 1997. *Guns, Germs, and Steel*. New York: W.W. Norton and Co., Ch. 4-6. (course packet)

*Engerman, Stanley L. and Kenneth L. Sokoloff 2002. "[Factor Endowments, Inequality and Paths of Development among New World Economies](#)". NBER WP-9259. Cambridge, MA.

Lecture 6. Monday, September 29 Institutions and Growth

* Rodrik, D. 2000 "[Institutions for High-Quality Growth: What they are and How to Acquire them](#)", NBER Working Paper No. W7540.

* Engerman and Sokoloff (2002) "[Factor Endowments, Inequality, and Paths of Development Among New World Economies](#)" NBER WP# 9259

* Helpman, E. 2004 "The Mystery of Economic Growth" Chapter 7.

* Avner Greif, [Institutions and the Path to the Modern Economy: Lessons from Medieval Trade](#), Stanford University, 2006., [Introduction](#).

* Acemoglu, Daron, Simon Johnson, and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," American Economic Review, 91(5), December 2001, 1369-1401. (Also NBER working paper: <http://papers.nber.org/w7771>)

Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development" August 2002. http://ksghome.harvard.edu/~drodrik/institutionsrule_5.0.pdf

Burki, S.J. and Perry G. *Beyond the Washington Consensus: Institutions Matter*, World Bank, Ch.1.

Lecture 7. Wednesday, October 1 **What is Behind Productivity Growth?**

* Easterly, (2001), Chapters 8-9

* Helpman, E. 2004 "The Mystery of Economic Growth" Chapter 4

* Hausmann and Rodrik (2003) "*Economic Development as Self-Discovery*"

Easterly, (2006) Chapter 2, *The Legend of the Big Push*

Romer, Paul. (1994). "*The Origins of Endogenous Growth*," *Journal of Economic Perspectives*, 8(1): 3-22

Murphy, Kevin, Andrei Shleifer and R. Vishny. (1989). "*Industrialization and the Big Push*," *Journal of Political Economy*, 97(5): 1003-1026.

Lecture 8. Friday, October 3 **Structural transformation**

* Hausmann, Ricardo and Klinger, Bailey *Structural Transformation and Patterns of Comparative Advantage*, CID, KSG. June 2006

* Hausmann, Hwang, Jason and Rodrik, Dani "*What You Export Matters*" CID Working Paper No. 123, March 2006

* Hausmann & Rodrik - Doomed to Choose: Industrial policy as predicament. First draft. See <http://ksghome.harvard.edu/~drodrik/doomed.pdf>

Review Session, Monday October 6

Lecture 9. Wednesday October 8
Macro risks: External and internal balance

* Dornbusch, Rudiger, (1980) Open Economy Macroeconomics, Chapter 6.

* Rigobon, Roberto (2004) Notes on the BBNN model.
<http://web.mit.edu/rigobon/www/Pdfs/bb-nn.pdf>

Monday, October 13 – Columbus Day, No Class

Lecture 10. Wednesday October 15
Macro risks: External and internal balance in practice

TBA

Lecture 11. Monday, October 20
Growth Diagnostics I

* Hausmann, R., Rodrik, D. and Velasco, A, (2004) “[Growth Diagnostics](#)” Harvard University

* Hausmann, R., Rodrik, D. and Velasco, A. (2006) [Getting the Diagnosis Right, A new approach to economic reform](#), Finance and Development (IMF) March 2006, Volume 43, Number 1

* Pritchett, L. (2003) “[Reform is like a box of chocolate](#)”

* Roberto Zaghera, Gobind Nankani, and Indermit Gill, [Rethinking Growth](#), Finance and Development (IMF) March 2006, Volume 43, Number 1

Lecture 12. Wednesday, October 22
Growth Diagnostics II

* Hausmann, Pritchett and Rodrik (2004) “[Growth accelerations](#)”

* Hausmann, Ricardo, and Dani Rodrick. "[Self-Discovery in a Development Strategy for El Salvador](#)." *Economía - Journal of the Latin American and Caribbean Economic Association* 6(1): 43-101, 2005.

* Rodrik, D. “[Growth Strategies](#)”. Working draft for the Handbook of Economic Growth. John F. Kennedy School of Government. Cambridge, MA September 2003.

Lecture 13. Monday October 27
Growth Diagnostic in Practice I: Is it Finance?

* Inter-American Development Bank 1997. "[A Decade of Structural Reforms: All Pain no Gain?](#)" *Latin America After a Decade of Reforms: Economic and Social Progress in Latin America*, Part Two.

* Thorsten Beck, Ross Levine, and Norman Loayza, 1999 "Finance and the Sources of Growth", WB Working Paper No. 2057, available at <http://econ.worldbank.org/view.php?type=5&id=286>.

* Hausmann, R. and Gavin, M. 1996. "[The Roots of Banking Crises: The Macroeconomic Context](#)". Inter-American Development Bank, WP-318.

Lecture 14. Wednesday October 29
Growth Diagnostic in Practice II: Is it low social returns?

* Inter-American Development Bank. 2000. "[Geography and Development](#)" in *Development beyond Economics: Economic and Social Progress Report*, Washington, DC, Chapter 3.

* Pritchett, Lant. 1996. "[Where Has All the Education Gone?](#)" World Bank, Policy Research Department, Working Paper # 1581.

Lecture 15. Monday November 3
Growth Diagnostic in Practice III: Is it low appropriability due to macro failures?

* Agenor, Pierre-Richard and Peter Montiel (1999) *Development Macroeconomics*, Princeton University Press, Chapter 4.

* Hausmann, R., Talvi, E., Gavin, M., Perotti, R. 1996. "Managing Fiscal Policy in Latin America and the Caribbean: Volatility, Procyclicality, and Limited Creditworthiness." IDB WP-326.

* Velasco, Andrés and Camila Rodriguez (2003) "El Salvador: Fiscal Performance, Prospects and Policy Options".

Lecture 16. Wednesday November 5
Growth Diagnostic in Practice IV: Is it low appropriability due to micro failures?

* Hausmann, Rodriguez-Clare and Rodrik (2005) "Towards a strategy for economic growth in Uruguay" available at <http://ksghome.harvard.edu/~rhausma/new/uruguay05.pdf>

* Ricardo Hausmann, Dani Rodrik, and Charles F. Sabel. 2007 (Draft) . Reconfiguring Industrial Policy

Part III: Inequality

Lecture 17. Monday November 10 Inequality: Definitions and Stylized Facts

* Inter-American Development Bank. 1998. "[Magnitude of Inequalities](#)," *Facing Up to inequality in Latin America: Economic and Social Progress Report*, Washington DC. Ch. 1

* Amartya Sen, 1992, *Inequality Reexamined*, Cambridge, MA: Harvard University Press. Chapter 1-2. (**course packet**)

* Sala-i-Martin, Xavier, "[The Disturbing 'Rise' of Global Income Inequality](#)," NBER Working Paper No. w8904, April 2002.

* De Ferranti, David; Perry, Guillermo E.; Ferreira, Francisco; and Walton, Michael. "[Summary](#)" in *Inequality in Latin America: Breaking with History?*. World Bank, 2004. Washington, D.C.

Atkinson, A. (1997). "[Bringing Income Distribution in from the Cold](#)," *The Economic Journal*, Vol. 107 (441), pp. 297-321.

Bruno, M., Ravallion, M. and Squire, L. (1996). [Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues](#)," World Bank.

M. Szekely and M. Hilgert (1999). "[What's Behind the Changes in Inequality in Latin America in the 1990s?](#)" *Working Paper Series No. 410*, Research Department, Inter American Development Bank.

Lecture 18. Wednesday November 12 Inequality: Deeper Determinants

* Inter-American Development Bank. 1998. "[Labor Income Inequality and Education](#)," *Facing Up to Inequality in Latin America: Economic and Social Progress Report*, Washington. DC. Part II, Chapter 2-4.

Hausmann, R. and Gavin, M. 1998. "[Nature, Development, and Distribution in Latin America. Evidence on the Role of Geography, Climate, and Natural Resources](#)", WP-378, August.

De Ferranti, David; Perry, Guillermo E.; Ferreira, Francisco; and Walton, Michael. "[Chapter 3: Group-Based Inequalities: The Roles of Race, Ethnicity, and Gender](#)" in *Inequality in Latin America: Breaking with History?*. World Bank, 2004. Washington, D.C.

Lecture 19. Monday November 17
Inequality: What Policies?

* Inter-American Development Bank. 1998. "[Policies](#)," *Facing Up to Inequality in Latin America: Economic and Social Progress Report*, Washington, DC., Part III.

* World Development Report 2006 "[Equity and Development](#)." *Part II, Equitable Public Action in the Domestic Arena: Broadening Opportunities*. Chapter 6-8.

Part IV: Volatility

Lecture 20. Wednesday November 19
The Volatility Puzzle: Facts, Consequences and Theoretical Approaches About Causes

* Hausmann and Gavin (1996) "Securing stability and growth in Latin America" http://www.iadb.org/oce/index.cfm?fuseaction=Publications.View&pub_id=WP-315

* Caballero: Macroeconomic volatility in Latin America: a view and three case studies. <http://www.nber.org/papers/w7782>

* Aizenman and Pinto "Managing Volatility and Crises Overview", <http://econ.ucsc.edu/faculty/jaizen/pubs/ManagingVolatility.pdf>

Lecture 21. Monday November 24
Real Shock: Terms of Trade and the Real Exchange Rate in the Longer Run

* Hausmann and Rigobon "An alternative explanation of the resource curse: theory and policy implications" <http://www.nber.org/papers/w9424>

* Hausmann, R. (1999) "Managing terms of trade risk" <http://www.worldbank.org/wbi/macroeconomics/management/Resources/PREMnote18.pdf>

Lecture 22. Wednesday November 26
Fiscal Incontinence, Budget Institutions and Decentralization

* Inter-American Development Bank (1997), Part 3. Chapter 1-3. http://www.iadb.org/res/index.cfm?fuseaction=Publications.View&pub_id=B-1997

* Gavin, Hausmann, Perotti and Talvi (1996) "Managing fiscal policy in Latin America: Volatility, Pro-cyclicality and Limited Creditworthiness" <http://www.iadb.org/res/publications/pubfiles/pubwp-326.pdf>

* Alesina, A., Perotti, R. 1996. " Budget Deficits and Budget Institutions." NBER W5556, May. <http://www.nber.org/papers/w5556>

* Inman Robert P. (1998) "Do Balanced Budget Rules Work? U.S. Experience and Possible Lessons for the EMU" NBER Working Paper No. W5838
<http://www.nber.org/papers/w5838>

Lecture 23. Monday December 1

Fiscal Risk, Fiscal Pro-cyclicality and the "Original Sin"

* Hausmann R. (2003) "Good credit ratios, bad credit ratings: the role of debt denomination" <http://ksghome.harvard.edu/~rhausma/paper/GCRBCR-3.2003.pdf>

* Talvi and Vegh "Tax base variability and pro-cyclical fiscal policy" NBER WP#7499 <http://www.nber.org/papers/w7499>

Eichengreen, Hausmann and Panizza (2004) "[The Pain of Original Sin](#)"

Eichengreen, Hausmann and Panizza (2004) "[The mystery of original sin](#)"

Lecture 24. Wednesday December 3

Policy Implications at the National and International Level

* Gavin and Hausmann (1999) "Preventing crisis and contagion: fiscal and financial dimensions"
http://www.iadb.org/oce/index.cfm?fuseaction=Publications.View&pub_id=WP-401

* Eichengreen and Hausmann (2003) "The road to redemption"
<http://ksghome.harvard.edu/~rhausma/new/RoadtoredemptionEH.pdf>

Hausmann and Rigobon (2003) "IDA in UF: on the benefits of changing the currency denomination of concessional debt".
<http://ksghome.harvard.edu/~rhausma/new/HausmannRigobonWBOS.pdf>

Lecture 25. Monday December 8

A Policymaker's World View