Econ 8311--8312: Growth Theory and Economic Development

Outline

The purpose of this course is to discuss issues related to growth and development. Since our background is primarily in theory, the emphasis will be on models rather than on empirical work per se. This does not mean that we will ignore empirical work or facts in the discussion, rather, it means that these discussions will be used more for motivation of the models that we will analyze. Bottom line: in this course we study models; hopefully motivated by some stylized facts.

Prerequisites

Given the nature of the central topic --growth and development-- it is natural to focus attention on dynamic models. We will assume some familiarity with the standard infinitely lived representative agent model of growth theory. By this we mean a basic knowledge of the issues (but not the technical details) involved in the existence of competitive equilibria (both with and without distortions), as well as the basic techniques to characterize solutions to intertemporal optimization problems (Euler equations and transversality conditions) and the equilibria they induce. If you understood your first year macro class, you should be okay on this dimension.

Our strategy will be to use primarily discrete time models even though many of the papers we will discuss use continuous time models. In these cases we will try to present a discrete time version in class. If this proves difficult (sometimes it is possible to get closed form solutions for continuous time models when no such solution exists for discrete time versions) we will use the continuous time version.

Course Organization

There are two distinct reasons for you to take a class like this one. First, it is an easy way for you to become exposed to a body of literature- find out what is in it, what is still needed to be done, etc. Second, hopefully, you can learn something about doing research in economics in general. How does one carve out a realistically ‘sized’ problem, What are the role of the assumptions used in the paper, etc. This should be useful to you in whatever area of economics that you choose to work in. To address these two goals, we will analyze a series of papers in the area; the forecast is that we will discuss approximately one paper per class session. We expect that most of the sessions will be of the "participatory lecture style" variety. (By this we mean that although we will plan to do most of the talking, we expect you to have read in advance and hence to be able to answer some questions about the material.) To realize the second goal, our plan is to leave enough time at the end of each class so that we can attack/analyze the research strategy of the paper. You will be expected to have thought about the question “Why didn’t this author to something different in this paper?” ahead of time so that this discussion will be useful to all!

To get a grade in this class, you will be required to complete a take-home final exam. This will purposely be loosely structured so that you can emphasize your strengths when completing it. This means that it will look something like: “How important is ________ in determining growth and development? What does the existing empirical literature have to say about this question? The existing theoretical literature? How could
you improve each of these? Improve them.” Or something like this. The only thing to be determined is what goes in the blank.

We will discuss the details at the first meeting.

Content

What follows is a list of papers for this course. This list is much too long by design. The intention is to give you some sort of an organization of the literature along with a guide, by topic, of some of the recent work in the area in case you are interested in pursuing a particular topic in more detail. This list is **NOT** complete. Undoubtedly there are famous papers (and famous authors) left off.

The references that follow are organized in 8 “Sections”. The first four sections Larry’s and the other four ones Michele’s. Roughly, this is the way we plan to split the semester and it should give you an idea of who is covering what and what kind of itinerary the entire semester is supposed to walk you through. To give an idea of what will be discussed, we have ‘starred’ the papers that we expect to talk about in class.

There are several things to be aware of here:

1) There is an overemphasis among the starred papers on things written by us (along with co-authors). Primarily, this reflects laziness on our part- these are the easiest ones to discuss since we know them best. So, you should discount this factor when going through the reading list.

2) There is an overemphasis among the starred papers on things that we wish we had spent more time studying in detail in the past. Thus, we have starred them to commit ourself to go over them in detail now. You will just have to suffer through learning these papers along with us.

3) There is room for ‘bargaining’ over topics/specific papers if there is something that someone is particularly interested in. If this is the case, you should let us know as soon as possible during the first few weeks, so that plans can be made!

4) There is not a perfect way to assign individual papers to topics (which is what we do below). There are many papers on the list that could easily have been assigned to several different topics or Sections. Because of this, you should use the list only as a rough guide if you want to go on in a particular area in more detail.

0. Background

Examples of books that contain relatively good treatments of the basic tools that we will use along with economic applications are:

Sargent, Thomas J., **Dynamic Macroeconomic Theory**, Harvard University Press.

Blanchard, O. and S. Fischer, **Lectures on Macroeconomics**, MIT Press.


There are no textbooks that cover all of the topics I would like to cover (and it is more informative to look at papers if you want to learn how to do research). However, there are three recent books that review a lot of material on growth and development, and hence, they are good books to have on your shelf if you are interested in the "new" growth theory. They are:


1. Basic Growth Facts and the Convex Aggregate Growth Model

1.1. Exogenous Growth Models


1.2. Endogenous Growth Models


2. Aggregate Models with Non-Convexities and/or Externalities that Deliver Growth

A. Basic Physical/Human Capital Models


B. Models with Learning By Doing


C. Models of Technological Innovation, Diffusion and R&D

Part 2, pp S71-S102, October.


3. Models of Growth as Quality Improvement


4. The Effects of Policies on Growth

A. Taxation and Growth


No. 3, pp 500-521.


**B. Spending and Growth**


**C. Monetary Policy and Growth**


D. Growth and Financial Intermediation


E. Trade and Growth


F. Endogenizing Policy


5. The Classical Multisector Growth Model and Extensions.


7. Growth Cycles.


Matsuyama, K., "Growth Through Cycles", mimeo, Northwestern University, October 1996.


8. Indeterminacy of Equilibria in Growth Models


9. Other Topics That we Won’t Have Time For

A. Population Growth and Output Growth


B. The Growth Effects of Property Rights


**C. Cities, Neighborhood Effects and Growth**


D. Development Traps


E. Transitions Paths


G. Empirical Work on Growth, Scale Effects and Cross Country Differences in Growth Rates


H. Miscellaneous Reading


