

CENTER FOR ECONOMIC STRATEGY AND COMPETITIVENESS
RAISING A NATION: PERSPECTIVES ON GROWTH AND DEVELOPMENT

Teaching Fellows:

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Tu -Th 6.30 – 8.30 pm

Website: <http://www.economicstrategy.org>

“Is there some action a government of India could take that would lead the Indian economy to grow like Indonesia’s or Egypt’s? If so, *what*, exactly? If not, what is it about the ‘nature of India’ that makes it so? The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else... This is what we need a theory of economic development *for*: to provide some kind of framework for organizing facts like these, for judging which represent opportunities and which necessities.”

--Robert Lucas*

This course is part of a two course series in the certificate program affiliated with Harvard Business School. Each student who successfully completes both courses in this certificate program will receive a Graduate Certificate from the Harvard Affiliated Center for Economic Strategy. This course will follow the format, workload and ethics of Harvard Business School. It will be challenging academically, but extremely rewarding experience for the students that are able to complete the requirements of both courses. The Graduate Certificate from the Harvard Affiliated Center for Economic Strategy will provide an entrance to Dr. Michael Porter’s Microeconomics of Competitiveness Worldwide Network whose membership is lifelong.

This course is concerned with two key questions: Why are some countries so rich and others so poor? And what can economic policy do to change that? As the above oft-cited quote makes clear, the large disparity in income levels that exists between First World and Third World countries stands as one of the most compelling and important questions for the economics profession. This interest in economic growth goes beyond mere intellectual curiosity. A good understanding of the process of growth and development is essential before making policy recommendations that could affect the standard of living of people around the world. Arguably, our misunderstanding of this process can and has had adverse consequences for some Third World countries.

In this semester, we aim to provide a broad survey of the theories that economists have for analyzing the issue of economic growth. What forces – social, economic, political, even cultural – might explain the differences in growth rates and income levels observed around the world? Does bad geography condemn certain countries to remain poor? Is having the right set of institutions more important than one’s resource endowments? How should we think of the roles that

* Lucas, Robert, (1988), “On the Mechanics of Economic Development,” *Journal of Monetary Economics* 22(1): 3-42.

technological change and innovation play? Are countries ultimately dependent on a few gifted entrepreneurs – the Bill Gates and Richard Bransons of the world – to bring about growth and prosperity?

This course is unique in that we adopt a two-pronged approach in the class. On one level, we will pursue the economic theories proposed for explaining differences in growth outcomes across countries and the empirical evidence marshaled either for or against these theories. At the same time, we seek to ground our discussion in the real world by examining specific case studies that will shed more light on the relevance of these theories and speak to the more practical aspects of how policies are actually conducted. In short, this course attempts to offer a healthy balance between the perspectives of the academic researcher and the growth practitioner.

This course is designed for students who find such issues absorbing, and are prepared to invest the effort to acquire the analytical skills tackling questions in economic growth. The literature is vast and the reading list is ambitious, as we aim to cover most of the basic theory and empirical tools at an advanced graduate level. We hope that any student enrolling in this course will be able to leave with a strong understanding of the main strands and themes in the growth literature. We also have a much more humble aim to expose students to the basics of economic research, such as: how to read an economics paper, how to formulate testable hypotheses, how to go about empirically investigating the validity of a theory, and how to be critical about the limitations of one's research strategy and results.

The workload for the semester is fairly challenging and expectations will be high. On a weekly basis, the readings that we have assembled involve a mix of both fairly accessible case studies, as well as technical papers. We do not expect you to understand all that you read from the technical papers (we ourselves sometimes don't!), but part of being a good economist is learning how to glean the most important points and the central argument being made by the author.

PRE-REQUISITES: Intermediate Microeconomics, Intermediate Macroeconomics, Multivariable Calculus, Econometrics

Course Requirements:

- 1) Two short papers (4-6 pages each), due on March 24 and May 10, each worth 12.5% of the final grade.
- 2) Empirical Exercise (5-6 pages), due on April 7, worth 15% of your grade.
- 3) A 15-20 page final research paper worth 25% of your grade, due on June 15.
- 3) Finally, class participation will make up 35% of your grade. Out of this, 5% of your final grade will be based on a 10-15 minute class presentation, where you will help to lead the discussion through one of the case studies assigned for the Apr 21, Apr 26, Apr 28 and May 3 classes.
- 4) NO FINAL EXAM

A note on the final paper: The final paper is meant to allow you to explore more deeply a topic of your choice related to the material that we cover during the term. This could either be a detailed case study of a country of interest or an investigation into some aspect of cross-country differences. The final paper is not meant to be a mere literature review. Our hope is that some of the skills acquired during the term, vis-à-vis constructing an economic argument and testing it, can be demonstrated in this paper.

Course Policies:

- **Attendance.** Given the importance of class participation to the effectiveness of the course, attendance is mandatory for all class meetings. Each student is allowed two absences.
If you miss more than 3 classes, you will receive a failing grade for the course.
- **Late paper policies.** Exercises and papers are to be turned in on the respective due dates at the start of class. Each student will be allowed a maximum of three late days during the entire semester, to be used at your discretion with no penalty. Any additional late work will be penalized a third of a letter grade per day, with **no** exceptions.
- **Assigned reading.** The articles assigned for each day should be read before class. We will typically provide you with some pointers in the preceding class on what you should look out for and focus on. This is intended to help you in your time management when you tackle the reading, so that you know which articles you can skim through and which you should spend more time reading in detail.
- **General expectations.** Economists take a serious view about issues of intellectual honesty. Any data sources that you employ or ideas that you adopt from prior researchers should be referenced in your papers to give due attribution. We adopt a similarly serious view towards the originality of your work.

Reading List:

MAR 9: INTRODUCTION AND COURSE LOGISTICS

MAR 10: WHY DO WE CARE ABOUT ECONOMIC GROWTH?

Jones, Charles, (1997), "On the Evolution of the World Income Distribution," *Journal of Economic Perspectives* 11: 19-36.

Wells, Louis T. Jr., (2002), "Japan: The Miracle Years," HBS Case Study 9-702-014.

MAR 15: GETTING THE FACTS RIGHT: CONVERGENCE OR DIVERGENCE?

Baumol, William, (1986), "Productivity Growth, Convergence and Welfare: What the Long-Run Data Show," *American Economic Review* 76: 1072-1085.

Pritchett, Lant, (1997), "Divergence, Big Time," *Journal of Economic Perspectives* 11: 3-17.

MAR 17: THE BENCHMARK NEO-CLASSICAL THEORY OF GROWTH: THE SOLOW MODEL

Solow, Robert, (1956), "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics* 70: 65-94.

Solow, Robert, (1957), "Technical Change and the Aggregate Production Function," *Review of Economics and Statistics* 39: 312-320.

[Solow, Robert. A summary of the Kaldor facts in Solow's Nobel lecture.] (optional reading)

FIRST PAPER ASSIGNED

MAR 22: THE SOLOW MODEL: PLUG AND PLAY

Africana Exercise (1 page)

[Michael Porter, Michael McCreless (2008) "Rwanda: National Economic Transformation" HBS Case 9-706-491] (optional reading)

MAR 24: CAPITAL ACCUMULATION IN PRACTICE (OR SOME GROWTH ACCOUNTING)

Young, Alwyn, (1995), "The Tyranny of Numbers," *Quarterly Journal of Economics* 110: 641-680.

Dyck, Alexander, (1996), "The USSR 1988: The Search for Growth," HBS Case Study 9-795-060.

FIRST PAPER DUE. EMPIRICAL EXERCISE ASSIGNED

MAR 29: EMPIRICAL TESTS OF THE SOLOW MODEL (PART I)

Mankiw, N. Gregory, David Romer, and David Weil, (1992), "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics* 107: 407-437.

MAR 31: EMPIRICAL TESTS OF THE SOLOW MODEL (PART II)

Barro, Robert, (1997), *Determinants of Economic Growth: A Cross-Country Empirical Study*, (Cambridge, Massachusetts: MIT Press). Chapter 1, pp. 1-47.

APR 5: THEORIES OF A: WHY INSTITUTIONS MATTER (PART I)

Acemoglu, Daron, Simon Johnson, and James Robinson, (2001), "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91: 1369-1401.

Glaeser, Edward, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, (2004), "Political Institutions and Human Capital in Economic Development," *Journal of Economic Growth* 9: 271-303.

APR 7: THEORIES OF A: WHY INSTITUTIONS MATTER (PART II)

Rodrik, Dani, (2000), "Institutions for High-quality Growth: What They Are and How to Acquire Them," *NBER Working Paper 7540*.

Abdelal, Rawi, (2001), "Russia: The End of a Time of Troubles?" HBS Case Study 9-701-076.

APR 12: THEORIES OF A: CORRUPTION

Shleifer, Andrei, and Robert Vishny, (1993), "Corruption," *Quarterly Journal of Economics* 108: 599-617.

Mauro, Paolo, (1995), "Corruption and Growth," *Quarterly Journal of Economics* 110: 681-712.

APR 14: THEORIES OF A: IS GEOGRAPHY THE BE-ALL AND END-ALL

Diamond, Jared, (1999), *Guns, Germs and Steel: The Fate of Human Societies*, New York: W.W. Norton & Co). Prologue, pp.13-32.

Sachs, Jeffrey, (2001), "Tropical Underdevelopment," NBER Working Paper #8119.

17 April: EMPIRICAL EXERCISE DUE.

APR 21: THEORIES OF A: POLITICAL ECONOMY

Tornell, Aaron, (1998), "Reform from Within," *NBER Working Paper No 6497*.

Acemoglu, Daron, Davide Ticchi, Andrea Vindigni, (2008), "A Theory of Military Dictatorships," *NBER Working Paper No 13915*.

APR 26: Dictatorship

De Mesquita, Bruce Bueno and Smith, Alastair: "*Dictators Handbook: Why Bad Behavior is Almost Always Good Politics*" - Introduction + Chapter 1 (p1 to p19)

SECOND PAPER ASSIGNED.

APR 28: THE REAL WORLD I: AFRICA (Student presentations)

Abdelal, Rawi, Debora Spar, and Katherine E. Cousins, (2002), "Remaking the Rainbow Nation: South Africa 2002," HBS Case Study 9-702-035.

Miguel, Edward, (2004), "Tribe or Nation? Nation-Building and Public Goods in Kenya versus Tanzania," World Politics 56: 327-362.

MAY 3: THE REAL WORLD II: SUCCESS STORIES (Student presentations)

Alfaro, Laura, Debora Spar, Vinati Dev, and Faheen Allibhoy, (2003), "Botswana: A Diamond in the Rough," HBS Case Study 9-703-027.

Emmons, Willis, Adele Cooper, and J. Richard Lenane, (1999), "1-800 Buy Ireland," HBS Case Study 9-799-132.

MAY 5: THE REAL WORLD III: SUCCESS STORIES (Student presentations)

Kennedy, Robert E., and Teresita Ramos, (1998), "Chile: The Latin American Tiger?" HBS Case Study 9-798-092.

Reinhardt, Forest, and Edward Prewitt, (1995), "Singapore," HBS Case Study 9-793-096.

MAY 10: THE REAL WORLD IV: TRANSITION ECONOMIES (Student presentations)

Kennedy, Robert E., and Amy L. Sandler, (1999), "Shock Therapy in Eastern Europe: The Polish and Czechoslovak Economic Reforms," HBS Case Study 9-797-068.

Scott, Bruce R., and Jamie L. Matthews, (2003), "China's Rural Leap Forward," HBS Case Study 9-703-024.

MAY 12: INNOVATION AND ENTREPRENEURSHIP: THE SCHUMPETERIAN IDEA

Baumol, William, (1993), Entrepreneurship, Management, and the Structure of Payoffs, MIT Press. Chapter 1, pp.1-24.

MAY 17: INNOVATION AND ENTREPRENEURSHIP: CASE STUDIES

Koehn, Nancy, (2002), "Marshall Field and the Rise of the Department Store," HBS Case Study 9-801-349. (K)

Koehn, Nancy, (2004), "Michael Dell: Winning on the Demand Side of the Information Revolution" HBS Case Study 9-801-363.

SECOND PAPER DUE.

MAY 19: DEVELOPMENT STRATEGIES: DID POLICY GO WRONG?

Rodrik, Dani, (2004), "Growth Strategies", Harvard mimeo.

FINAL PAPER DUE: JULY 16