

Economic Growth and Development

2011-12

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The aim of the course is to examine the “new growth” or “endogenous growth” theories developed in the last 25 years, as well as the closely related literature on development.

The course consists of two sections. The first part will examine the seminal work in growth and economic development. We will study the various mechanisms that will result in sustained long-run growth -learning-by-doing, investments in infrastructure, education, and firms’ R&D decisions– and analyse the role played by externalities and increasing returns to scale. We will see that a crucial implication of these growth models is that the equilibrium growth rate is not socially optimal, and that a laissez-faire economy can grow either too slowly or too fast. We will also examine the causes of economic development, and why poverty traps may emerge. The explanations proposed include the theory of “the big push”, whereby increasing returns to scale can result in poverty traps and hence explain why certain economies remain underdeveloped. We will then address the role of “threshold effects” in education, their implications for development, and the role of the distribution of wealth.

There will also be two classes and a problem session. It is essential that that you attempt the exercises for the problem session. Points will be awarded for those who solve problem on the blackboard

The second part of the course will examine and several topics related to growth: the empirical evidence, the relationship between growth and inequality, recent views on the causes of the industrial revolution, and the role of institutions in development.

The textbooks in the area are

Barro, R. and X. Sala-i-Martin, *Economic Growth*, Mc Graw-Hill 1995.

Aghion, P. and P. Howitt, *Endogenous Growth Theory*, MIT Press 1998.

Aghion, P. and P. Howitt, *The Economics of Growth*, MIT Press 2009.

Aghion, P. and S. Durlauf (eds.) *Handbook of Economic Growth*, North Holland 2005.

Reading list: I refer to a chapter in these text books, whenever available, as well as to the original articles. I recommend you read the relevant text book chapters, and refer to the original articles only in those topics that you are most interested in. When no textbook is available, core readings are marked by *.

The mathematical requirements for the lectures are mainly the techniques of dynamic optimisation that you should be familiar with. If you want to revise this, I recommend the mathematical appendix of Barro and Sala-i-Martin. We will also use some probability theory -Poisson processes- so it is worth checking their properties in any statistics book.

Plan of lectures and bibliography

Part I

- 1. Development and Growth: Overview**
Aghion & Howitt 2009, Introduction
- 2. Neoclassical growth theories**
Aghion & Howitt 2009, chapter 1.
- 3. Towards Endogenous Growth**
Aghion & Howitt 1998, chapter 1.
Aghion & Howitt 2009, introduction and chapters 1 and 2.
Romer, P (1986): "Increasing Returns and Long-Run Growth," *Journal of Political Economy*.
Barro (1990): "Government Spending in a Simple Model of Endogenous Growth," *Journal of Political Economy*.
- 4. Human capital**
Barro & Sala-i-Martin, chapter 5. Lucas (1988): "On the Mechanisms of Economic Development," *Journal of Monetary Economics*.
- 5. Solow versus the AK Model**
*Mankiw, D. Romer and Weil (1992): "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*
- 6. Poverty Traps I: The Big Push**
*Azariadis, (1996). "The Economics of Poverty Traps Part One: Complete Markets," *Journal of Economic Growth*.
Murphy, Shleifer, and Vishny (1989): "Industrialization and the big push," *Journal of Political Economy*.
- 7. Poverty Traps II: Threshold Effects**
Aghion & Howitt 1998, Ch. 10
Azariadis and Drazen (1990): "Threshold externalities in economic development," *Quarterly Journal of Economics* .
- 8. Poverty Traps III: Income Distribution and Macroeconomics**
Galor, and Zeira. 1993. "Income distribution and macroeconomics," *Review of Economic Studies*.
- 9. Technical change: Expanding product variety**
Barro & Sala-i-Martin, chapter 6, Aghion & Howitt 1998, section 1.6,
Aghion & Howitt 2009, chapter 3.
Romer 1987: "Growth Based on Increasing Returns due to Specialization,» *AER*.
Romer (1990): "Endogenous Technical Change", *JPE*.
- 10. Technical change: Quality ladders**
Barro & Sala-i-Martin, chapter 7; Aghion & Howitt 1998, chapter 2
Aghion and Howitt (1992): "A Model of Growth through Creative Destruction," *Econometrica*.
- 11. Complementarities between human capital and R&D**
Redding (1996) "The Low-skill, Low-quality Trap: Strategic Complementarities between Human Capital and R&D," *Economic Journal*.

Part II

12. The new growth evidence

Durlauf, Johnson and Temple (2005): "Growth Econometrics," in Aghion and Durlauf (eds.) *Handbook of Economic Growth*

Temple, J (1999) "The new growth evidence," *Journal of Economic Literature*.

Hall, Robert E. and Charles I. Jones (1999), "Why Do Some Countries Produce So Much More Output Than Others?" *Quarterly Journal of Economics*.

Sala-i-Martin (2006) "The World Distribution of Income: Falling Poverty and Convergence, Period!" *Quarterly Journal of Economics*

13. Trade and Growth

Aghion & Howitt 2009, chapter 15

Wacziarg and Welch (2008): "Trade Liberalization and Growth: New Evidence," *The World Bank Economic Review*

Krugman (1979): "A Model of Innovation, Technology Transfers and the World Distribution of Income," *JPE*.

Grossman and Helpman (1991): "Quality Ladders and Product Cycles," *QJE*.

Young (1991): "Learning by Doing and the Dynamic Effects of International Trade," *QJE*.

14. Inequality and Growth

Aghion and Howitt 1998, ch 9 or Aghion & Howitt 2009, section 9.3

Aghion, P., E. Caroli and C. García-Peñalosa. 1999. "Inequality and Economic Growth: the perspective of the new growth theories", *Journal of Economic Literature*.

Hornstein, Krusell and Violante (2005): "The Effects of Technical Change on labour Market inequalities," in Aghion and Durlauf (eds.) *Handbook of Economic Growth*

Kuznet, S. 1955. "Economic growth and income inequality," *American Economic Review*

15. Institutions and development

Aghion & Howitt 2009, chapter 11.

Acemoglu, Johnson and Robinson (2005). *Handbook of Economic Growth*, chapter 6.

Acemoglu, Johnson and Robinson (2001), "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*.

Eicher, van Ypersele and García-Peñalosa (2009). "Education, corruption and the distribution of income," *Journal of Economic Growth*

Glaeser, La Porta, Lopez-de-Silanes and Shleifer, (2004). "Do Institutions Cause Growth?" *Journal of Economic Growth*.

16. Growth in early modern times

Aghion & Howitt 2009, chapter 10.

Galor (2005). *Handbook of Economic Growth*, chapter 4.

Galor and Moav (2004) "From Physical to Human Capital Accumulation: Inequality in the Process of Development," *Review of Economic Studies*.

Plan of the course by week

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1. Thursday 3/11	16h to 18h: Lecture 1
2. Thursday 10/11	14h to 18h: Lecture 2 and Lecture 3
3. Thursday 17/11	No course
4. Thursday 24/11	16h to 18h: Lecture 4
5. Thursday 1/12	16h to 18h: Lecture 5
6. Thursday 8/12	16h to 18h: <i>Class 1</i>
7. Thursday 12/01	16h to 18h: Lecture 6
8. Thursday 19/01	16h to 18h: <i>Class 2</i> : Problem set
9. Thursday 26/01	16h to 18h: Lecture 7
10. Thursday 2/02	16h to 18h: Lecture 8
11. Thursday 9/02	16h to 18h: Lecture 9
12. Thursday 16/02	16h to 18h: Lecture 10

Exam

Thursday 23 of February, from 14h to 17h at de Fac. de Sciences Eco (Marseille).

Lecture notes

All material –including past exams- can be found at

<http://www.vcharite.univ-mrs.fr/PP/penalosa/teaching.htm>

Contact

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