

McGill University
Department of Economics
ECON 314 – 001: **Economic Development 2** (3 credits)
Fall 2020

Instructor: Eesha Sen Choudhury

E-mail: eesha.senchoudhury@mcgill.ca

Office: Online on Zoom

Office hours: Thursday 2:30 PM – 3:30 PM

Friday 1:30 PM – 2:30 PM

Class schedule:

TR: 1:05 PM – 2:25 PM

Online lectures on Zoom

Prerequisite

ECON 313

Course objectives

- To apply the tools of modern economic analysis to the qualitative and quantitative study of macroeconomic issues and problems faced by developing countries with respect to stabilization, growth, sustainable development and external trade, as well as to domestic and external financing, in a context of increasing globalization.
- To provide a critical and empirically based assessment of the different economic policy measures and packages put forward nationally and internationally, in order to deal with such issues and problems.

Course evaluation

Midterm examination: 40%

Two written papers: 30% each

No Final examination

If a student provides a valid reason accompanied by a relevant document, such as a medical certificate, *for absence from the midterm, a student has two options.*

(i) Have the written papers weighed at 100%.

(ii) Write a deferred exam during the university deferred midterm period in March 2020.

**Without a medical note AND / OR without the chosen option clarified before December 1st, a student will be awarded a zero on the midterm.*

The midterm examination will include definitions of concepts, true or false, numerical exercises and short essays. The midterm examination will cover the material taught until October 22nd.

Critical dates

September 2nd: beginning of the course

October 27th: midterm examination during regular class hours in the classroom.

November 15th: Deadline for Written Paper I

December 1st: Deadline for Written Paper II and the end of the course.

**Please note that no extensions are allowed on the second written paper. 5 points shall be deducted per day beyond the deadline.*

Teaching assistants

Teaching assistants (TAs) will have regular office hours (room and time TBA) during which they will answer questions on the course material.

Course material

Economic Development, 12/E

Michael P. Todaro

Stephen C. Smith,

ISBN-10: 0138013888

ISBN-13: 9780138013882

Publisher: Prentice Hall

ECON 314 will also have additional papers for reference, uploaded on MyCourses:

- The instructor will post additional recent institutional, statistical and empirical research material.
- A discussion forum which will permit the course participants, the TAs and the instructor to discuss, in an interactive way, the course content and related questions.

COURSE OUTLINE:

Note: The chapters given below refer to Todaro and Smith.

1. Solow Model and an introductory note to Romer
2. Lewis Model
3. Harris-Todaro Model
4. The advantages and limitations of distinguishing between development microeconomics and development macroeconomics The macroeconomic accounting framework: the national accounts, the balance-of-payments account and the flows-of-funds accounts.
5. The derivation of the fundamental macroeconomic identities linking the real sector and the financial and monetary sector of the economy, as a basis for the design and the modelling of stabilization and growth policies.
6. A comparative look at the main macroeconomic indicators and

their evolution over time .

7. International trade (IT) Theories: comparative advantage, factor endowment, vent-for-surplus, product cycle, dependency. Product differentiation and intra-industry trade. Economies of scale and strategic trade policies. The import substitution-export promotion dilemma.
8. IT (continued). Nominal and real exchange rates. Flexible and fixed foreign exchange rates. Measurement of the national currency depreciation / devaluation and appreciation / revaluation, on the foreign exchange market. Other foreign exchange regimes: managed floating, band exchange rate, monetary union, currency board, crawling peg and dollarization. Implications of the different foreign exchange regimes for the conduct of macroeconomic policy in DCs. The Dutch disease in flexible and fixed foreign exchange regimes, and its possible sources in DCs.
9. IT (continued). The Law of One Price. Real devaluation, tradeable and non-tradeable products. Impact of macro changes on the real exchange rate, and external competitiveness. Tariff and non-tariff barriers to trade on imports and exports; impact on producers, consumers, government revenue and the balance of payments.
10. IT (continued). The measurement of the rate of nominal protection, direct, indirect and total. The measurement of the rate of effective protection. Debate on protectionism. The infant industry argument. The optimum tariff.
11. IT (continued). Economic integration. Free trade areas, customs unions and common markets between DCs, and between the latter and developed countries. Trade creation and trade diversion.
12. External financing in developing economies Foreign direct investment (FDI) and portfolio investment (PI). Impacts of FDI and PI on DCs with respect to growth, transfer of technology, employment, income distribution, poverty and environment. Capital account controls.

13. External Finance (continued). Foreign aid: multilateral or bilateral grants, concessional loans, food aid and technical assistance. The measurement of aid efforts by the developed countries and the 0.7% Gross National Income target. The motivation to provide and accept financial aid. The role of the multilateral financial institutions: World Bank, IMF, regional development banks. The conditionality attached to foreign aid and the Washington Consensus. The absorption capacity of foreign aid.
14. External Finance (continued). The projection of FA needs: the Two-Gap growth model. The impact of foreign aid on DCs.
15. External Finance (continued). International migration and remittances. Costs and benefits of international migrations. The public and private external debt of DCs. The measurement of the debt burden. Debt alleviation, indebted poor countries initiative, debt-for-equity swaps, debt-for-nature swaps.
16. Domestic financing of developing economies. The financial and monetary system in developing countries. The main sources of domestic savings and taxation. The local capacity to collect the various taxes. Privatization as a source of domestic financing. The domestic public debt.
17. Domestic financing. Financial repression and financial liberalization in the presence or in the absence of the external capital account liberalization.
18. The main sources of inflation in developing countries. Short-term macroeconomic policies aimed at curtailing aggregate domestic final demand. Orthodox and heterodox stabilization policies.
19. The “optimal” sequence of macro and micro economic policy measures for economic growth and stabilization. Some global critical issues: economic interdependence, the environment and the international financial reform.

ACADEMIC POLICIES

In accord with McGill University's Charter of Students' Rights, students in this course have the right to **submit in** English or in French any written work that is to be graded.

Conformément à la Charte des droits de l'étudiant de l'Université McGill, chaque étudiant a le droit de soumettre en français ou en anglais tout travail écrit devant être noté (sauf dans le cas des cours dont l'un des objets est la maîtrise d'une langue).

Academic Integrity -- McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see <http://www.mcgill.ca/integrity> for more information).

L'université McGill attache une haute importance à l'honnêteté académique. Il incombe par conséquent à tous les étudiants de comprendre ce que l'on entend par tricherie, plagiat et autres infractions académiques, ainsi que les conséquences que peuvent avoir de telles actions, selon le Code de conduite de l'étudiant et des procédures disciplinaires (pour de plus amples renseignements, veuillez consulter le site <http://www.mcgill.ca/integrity>).

Plagiarism and the use of Text-matching software -- Text-matching software may be used in this course to verify the originality of students' written course work. Students considered to have committed plagiarism would be referred to the Faculty and their submission will be heavily penalised. See www.mcgill.ca/files/students/Text-Matching-Policy-on-English.pdf for more information.

According to Senate regulations, instructors are not permitted to make **special arrangements for final exams**. For further information, consult the Calendar, section 4.7.2.1, General University Information and Regulations at www.mcgill.ca.

In the event of extraordinary circumstances beyond the University's and instructor's control, the content and/or evaluation scheme in this course may change.