

McGill University  
Department of Economics  
ECON 314 – 002: **Economic Development 2** (3 credits)  
Winter 2011

***Instructor***

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Office: LEA 436; tel.: 514 398 5380

Office hours: Thursday – 10:30 AM to 12:30 PM

***Class schedule***

Tuesday and Thursday: 8:35 AM – 9:55 AM

Room: McIntyre Medical Building 522

***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 (DCs) 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%

Final examination: 60%

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There will be no make-up for the midterm examination. If the student provides a valid reason accompanied by a relevant document, such as a medical certificate, for absence from the midterm, the final will have a weight of 100%. There will be a make-up for the final (date and room TBA by the University).

Both examinations will include definitions of concepts, true or false, numerical exercises and short essays.

The midterm examination will cover the material taught until February 15. The final examination will cover the entire material, with special emphasis on the topics covered between March 1 and April 7.

### ***Critical dates***

January 4: beginning of the course

February 17: midterm examination during regular class hours (room TBA by the University)

February 22 and 24: study break

April 7: end of the course

The room number and the date of the final examination, which will take place between April 11 and 28, TBA by the University.

### ***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***

Todaro, M. P. and S. C. Smith (2009): *Economic Development*, Tenth Edition, Pearson-Addison Wesley, New York, NY

The book has its own website: [http:// www.aw.com/todaro](http://www.aw.com/todaro), where one can find quizzes, download the accompanying book by Stephen C. Smith on country case studies and obtain supplementary reading references.

ECON 314 will also have its own website where:

- 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 of interest.

Details of this website to be given to the participants at the beginning of the course.

### ***COURSE OUTLINE: DATES, CONTENT AND READINGS***

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

*JA* (January), *FE* (February), *MA* (March), *AP* (April)

#### *JA 4*

The advantages and limitations of distinguishing between development microeconomics and development macroeconomics, from a descriptive and a policy point of view (chap. 11, except p. 535-538).

#### *JA 6*

The macroeconomic accounting framework: the national accounts, the balance-of-payments account (chap. 13, p. 668-671) and the flows-of-funds accounts.

#### *JA 11*

The problems associated with macro data collection and processing in DCs in the presence, among others, of a generally important informal sector, subsistence farming, household production, barter transactions, capital flight and inaccurate invoicing of external trade and financial transactions.

#### *JA 13*

The derivation of the fundamental macro 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.

#### *JA 18*

A comparative look at the main macroeconomic indicators and their evolution over time (chap. 2, p. 53, table 2.4, column 3; p. 54, table 2.5, column 1; p. 57, figure

2.4; p. 66, table 2.10, columns 3, 6 and 9; p. 80, figure 2.8; p. 81, figures 2.9 and 2.10 - chap. 13, p. 674, table 13.5)<sup>[2]</sup>.

### *JA 20*

Economic growth models and the projection of macroeconomic variables (EG). The differences between neoclassical and structural production systems. Factor market distortions in DCs. Implications for resource allocation and the conduct of growth policies.

### *JA 25*

EG (continued). The Solow neoclassical growth model and the steady state (chap. 3, p. 128-131 and 147-149). The introduction of technological progress and human capital (chap. 3, p. 142-146). Endogenous growth theory (chap. 3, p. 151-154)<sup>[3]</sup>. The measurement of total factor productivity. Growth accounting.<sup>[4]</sup>

### *JA 27*

International trade (IT) (chap 12). 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. External terms of trade and the validity of the Prebisch-Singer hypothesis. The import substitution-export promotion dilemma. Immiserizing growth.

### *FE 1*

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, 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. The international reserve currency debate in 2010: US \$, Euro, Yuan, SDR or...?

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*FE 3*

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.

*FE 8*

IT (continued). Tariff and non-tariff barriers to trade on imports and exports. Their impact on producers, consumers, government revenue and the balance of payments.

*FE 10*

IT (continued). The measurement of the rate of nominal protection, direct, indirect and total. The measurement of the rate of effective protection. Arguments for and against protectionism. The infant industry argument. The optimum tariff.

*FE 15*

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. DCs and the Doha Round: old and new issues  
*Guidelines for the midterm examination.*

*FE 17*

**Midterm examination**

*FE 22 and 24*

**Study break**

*MA 1*

DCs' external financing (EF) (chap. 13 and 14). A review of the external capital account (see *JA 7*). Foreign direct investment (FDI) and portfolio investment (PI): North-South, South-North, South-South. Impacts of FDI and PI on DCs with respect to growth, transfers of technology, employment, income distribution, poverty and environment. Capital account controls. Short-term capital flows and the Tobin tax.

*MA 3*

EF (continued). Foreign aid (FA): 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 "aid industry". The "aid clientele". The motivations to provide and accept FA. The role

of the multilateral financial institutions: World Bank, IMF, regional development banks. The conditionality attached to FA and the Washington Consensus. The role of NGOs. The absorption capacity of FA.

*MA 8*

EF (continued). The projection of FA needs: the Two-Gap growth model (see not only chap. 14, p. 732-734, but also chap. 3, p. 112-114 and chap. 11, p. 536-538).

*MA 10*

The impact of FA on DCs.

*MA 15*

EF (continued). International migrations and remittances. Costs and benefits of international migrations (see not only chap. 14, p. 726-728, but also chap. 2, p. 74-76).

*MA 17*

EF (continued). The public and private external debt of DCs. The measurement of the debt burden. Debt alleviation: the Club of Paris, the Club of London, the Brady Plan, the Highly indebted poor countries initiative, debt-for-equity swaps, debt-for-nature swaps<sup>[5]</sup>.

*MA 22*

DCs' domestic financing (DF) (chap. 15). The financial and monetary system in DCs. The main sources of domestic savings. The main sources of taxation. The local capacity to collect the various taxes. The Olivera-Tanzi effect. Privatization as a source of DF. The domestic public debt.

*MA 24*

DF (continued). Financial repression and the road to financial liberalization in the presence or in the absence of the external capital account liberalization.

*MA 30*

DF (continued). The macro impact of microfinance.

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### *AP 5*

The main sources of inflation in DCs. Stabilization or short-term macroeconomic policies aimed at curtailing aggregate domestic final demand (chap. 15; also chap. 13, p. 679-681). Orthodox and heterodox stabilization policies.

### *AP 7*

The “optimal” sequence of macro and micro economic policy measures for economic growth and stabilization. Some global critical issues for the twenty-first century: economic interdependence, the environment and the international financial reform (chap. 16). *Guidelines for the final examination.*

## ***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.*
- *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 [www.mcgill.ca/students/srr/honest/](http://www.mcgill.ca/students/srr/honest/) for more information)*

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<sup>[1]</sup> Ph.D. in Economics, Free University of Brussels. Diploma in Economic Planning and National Accounting, Institute of Social Studies, The Hague. Honorary Professor in Economics at Université de Montréal.

<sup>[2]</sup> The tables and figures of chap. 2 were part of the material covered by ECON 313.

<sup>[3]</sup> ECON 313 included chap. 3. As such, this part of EG will be merely a review.

<sup>[4]</sup> The structural two-gap growth model will be part of the material on foreign aid (*MA 8*)

<sup>[5]</sup> For debt-for-nature swaps, see also chap. 10, p. 515.

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