

GY 300: Theories of Regional Development and Change – Lent Term 2011/2012

-Structure: 10 weekly lectures, 1 hour each; 5 classes fortnightly.

-Lecturer: Dr. Olmo Silva (o.silva@lse.ac.uk), Department of Geography and Environment and Spatial Economics Research Centre. Office hours: usually on Mondays, 4.30pm-6pm, room s506a. Please, book in advance by signing the papers on the lecturer's door.

-Class teacher: Mr. David Grover (d.grover@lse.ac.uk), Department of Geography and Environment.

Note: Handouts based on the slides used during the lectures will be posted on the GY300 Moodle page a few days before the sessions. Most of the readings will also be made available via Moodle. All other readings can be downloaded from the web, accessed from the Library or photocopied from the documents deposited in the GY300 Folder in the Map (Michael Wise) Room (5th floor, St. Clement's Building).

Course Description:

The course will introduce students to the framework and tools used by economists to study the processes of growth and development and analyze its determinants. After a short discussion of the basic modelling framework, the course will focus on empirical aspects. First, it will discuss the drawbacks and failures of simple models in which exogenous technological change fully determines the rate of growth of a country or region. Then it will present a set of enriching 'ingredients', which will allow for a better understanding of why different countries and regions around the world are characterised by different stages of development. The presentation of the material will be structured around four main blocks: Capital Accumulation, Education and Growth; the Information Technology Revolution; Trade, Globalization and the Role of the Government; and the New Institutional Paradigm. The course will close with a discussion of how the original framework worked out by economists back in '60s, coupled with new insights, provides a flexible tool to derive policy implications for growth and development.

Reading Material:

As a general remark, lecture (and class) attendance is highly recommended because students will be mainly assessed on those aspects of the reading material presented during the sessions. Some of the readings appear fairly technical. However, in no way students will be assessed on their understanding of the mathematical and statistical details of the articles and chapters listed in the references. What is required is the capacity to understand the economic intuition and the complexity of the issues surrounding the discussion of the determinants of growth and development. These will be the aspects emphasized both by the Lecturer and the Class Teacher.

Assessment Method:

You will be assessed via an examination in Summer Term, which will consist of a number of (usually nine) essay questions. The exam questions will be drawn from *both* the Lent and the Michaelmas Term material, and they will be divided into two sections, one based on the content of the Michaelmas Term (usually containing 6 questions) and the other on the Lent Term content of the course (usually containing 3 questions). *You will be required to answer at least one question from each section of the exam* and a total of three questions. The exam counts for 75% of the final course mark. In addition, you will be required to write a 2,500 essay, which counts for 25% of the final course mark. You will be provided with questions for the assessed essay some time during the Lent Term (around week 5 or 6).

Feedback and Unassessed Essays:

Towards the end of the Lent Term (around March), you will be given a set of essay-type questions from which you can choose one and submit your hand-written answer directly to the Lecturer (Dr. Silva). Feedback will be provided in one-to-one meetings held during the office hours for this course.

Lectures 1, 2 and 3: Some Stylized Facts and a General Framework for Growth; Capital Accumulation, Education and Growth

Main Readings:

- (**) Dornbush, R. (1999): “A Century of Unrivalled Growth”, manuscript, MIT.
- (**) Mankiw, G. (1995): “The Growth of Nations”, *Brookings Papers on Economic Activity*, vol. 1.
- (**,#) Van Reenen, J. and B. Sianesi (2003): “The Returns to Education: A Review of the Empirical Macro-Literature”, IFS Working Paper WP02/05 (*appendix material is optional*).
- (**,#) Wolf, A. (2004): “Education and Economic Performance: Simplistic Theories and their Policy Consequences”, *Oxford Review of Economic Policy*, vol. 20.
- Krueger, A. and M. Lindahl (2001): “Education for Growth: Why and For Whom?”, *Journal of Economic Literature*, vol. 39.

Lectures 4 and 5: The Information and Communication (ICT) Technology Revolution

Main Readings:

- (**) Bartelsman, E., A. Bassanini, J. Haltiwanger, R. Jarmin, S. Scarpetta and T. Schank (2006): “The Spread of ICT and Productivity Growth: Is Europe Really Lagging Behind in the New Economy?”, paper prepared for the *Fondazione Rodolfo De Benedetti Conference on the New Economy*, Catania, Italy.
- (**) Daveri, F. (2003): “Information technology and productivity growth across countries and sectors”, Chapter 5 in *The New Economy Handbook*, D. Jones (ed.), Elsevier Academic Press.
- (**,#) Gordon, R. (2000): “Does the ‘New Economy’ Measure Up to the Great Inventions of the Past?”, *Journal of Economic Perspectives*, vol. 14.
- (**,#) Oliner, S. and D. Sichel (2000): “The resurgence of Growth in the Late 1990s: Is Information Technology the Story?”, *Journal of Economic Perspectives*, vol. 14.
- Aghion, P. and P. Howitt (2005): “Appropriate Growth Policy: A Unifying Framework”, Schumpeter Lecture, available from Prof. Aghion’s webpage, Harvard University.
- Bloom, N., R. Sadun and J. Van Reenen (2007): “Americans Do I.T. Better: UK Multinationals and the Productivity Miracle”, CEP Discussion Paper 788.

Lectures 6, 7 and 8: Trade, Globalization and the Role of the Government

Main Readings:

- (**,#) Aghion, P., E. Caroli and C. Garcia-Penalosa (1999): “Inequality and Economic Growth: the Perspective of New Growth Theories”, *Journal of Economic Literature*, vol. 37.
- (**,#) Edwards, L. and R. Lawrence (2010): “US Trade and Wages: The Misleading Implications of Conventional Trade Theory”, NBER Working Paper 16106.
- (**) Frankel, J. (2000): “Globalization and the Economy”, manuscript, Harvard University.
- (**) Frankel, J. and D. Romer (1999): “Does Trade Cause Growth?”, *American Economic Review*, vol. 89.
- (**) Krugman, P., Richard C. and T.N. Srinivasan (1995): “Growing World Trade: Causes and Consequences”, *Brookings Papers on Economic Activity*, vol. 1 (*excluding discussions*).
- (**,#) Perotti, R. (1996): “Growth, Income Distribution and Democracy”, *Journal of Economic Growth*, vol. 1.
- (**,#) Rodrik, D. (1999): "Why Do More Open Economies Have Bigger Governments?", *Journal of Political Economy*, vol. 106.

- Alesina, A. and R. Perotti (2006): “Income Distribution, Political Instability and Investment”, *European Economic Review*, vol. 40.
- Borjas, G., R. Freeman and L. Katz (1991): “On the Labor Market Effects of Immigration and Trade”, NBER Working Paper 3761.
- IMF (2007): “The Globalization of Labor”, Chapter 5, in *World Economic Outlook*, 2007.
- Persson, T. and G. Tabellini (1994): “Is Inequality Harmful for Growth?”, *American Economic Review*, vol. 84.
- Thorbecke, E. and C. Charumilind (2002): “Economic Inequality and Its Socioeconomic Impact”, *World Development*, vol. 30.

Lectures 9 and 10: The New Institutional Paradigm; Conclusions

Main Readings:

- (**) Rodrik, D., A. Subramanian and F. Trebbi (2004): “Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development”, *Journal of Economic Growth*, vol. 9.
- (**,#) Rodrik, D. (2005): “Growth Strategies”, Ch. 14, in *The Handbook of Economic Growth*, P. Aghion and S. Durlauf (eds.), Elsevier Academic Press.

- (**,#) Tabellini, G. (2010): “Culture and Institutions: Economic Development in the Regions of Europe”, *Journal of the European Economics Association*, vol. 8.
- Acemoglu, D., S. Johnson and J. Robinson (2005) “Institutions and the Fundamental Cause for Long-Run Growth”, Ch. 6, in *The Handbook of Economic Growth*, P. Aghion and S. Durlauf (eds.), Elsevier Academic Press.
- Giavazzi, F. and G. Tabellini (2005): “Economic and Political Liberalizations”, *Journal of Monetary Economics*, vol. 52.
- Glaeser, E., R. LaPorta, F. Lopez-De-Silanes and A. Shleifer (2004): “Do Institutions Cause Growth?”, *Journal of Economic Growth*, vol. 9.

Articles marked with ** are essential for the course preparation. The remaining articles are strongly recommended. Finally, articles marked with “#” will also be covered during the classes.