

Macroeconomic Theory for MDE, Econ 5001**Assignment 8****Due date and time: 4 April 2012, 9:35****General instructions**

In assignment 1 you examined the basic trends in real GDP per capita in the country of your choice. In assignment 8 you discussed the determinants of economic growth through growth accounting, as well as by judicious use of economic theory and country-specific issues. Building on this knowledge, in this assignment, you will examine and analyze the determinants of economic development and economic growth performance in a comparative framework. This assignment also requires you to use the existing literature to frame the issues and identify specific measures of economic policies and institutions that might have an impact on the income levels and the growth rates that you observe in your group of countries.

This assignment requires knowledge, comprehension, *application*, and *analysis*.

Late assignments will be marked down by 10 percent per day.

Assignment

Background.—The background knowledge of concepts for this assignment include: growth versus level effects; income level accounting; growth accounting.

Object.—In this assignment, you are asked to provide a comparative analysis of economic growth or economic development in a small group of countries. In your essays, you may build on your analysis in assignments 1 and 8, but supplement those data and analysis with a discussion of differences or similarities in relevant institutions, economic policies or endowments across these countries. There are three ingredients of a successful essay in this context.

1. Using reliable and comparable data.
2. Constructing a “conceptual framework” for the analysis, which clearly distinguishes between level and growth effects. This framework must be relevant for the institutional and policy determinants of economic growth and economic development in the group of countries you are analyzing. This framework should identify and justify a set of institutional and economic policy factors that you think significantly matter for economic development and growth. Identification of such factors requires, in part, a careful reading and synthesis of the course material. Justification of these factors must include an explanation of the possible transmission mechanisms from such institutional and policy variables to income levels or growth rates.
3. Applying this conceptual framework within the specific context of the countries in your group.

Readings

The literature on comparative development and economic growth is extensive. The survey by Caselli (2005) discusses many of the factors that economists have considered to explain income *level* differentials. The survey by Temple (1999) discusses many of the factors that economists have considered to explain *growth* differentials.

Diamond (1997) is a brilliant account of comparative economic development based on geographic determinism. I would highly recommend you reading this book. Henry and Miller (2009) provide a nice comparative analysis of two island states to weigh “institutional” explanations against “policy-based” explanations. Engerman and Sokoloff (2011) examine the response of policies that directly affect the organization of production to geoclimatic endowments—personally, a great read.

Young (1995) is a provocative piece on East Asian economic growth experience. Young argues that East Asian economic growth was primarily due to capital deepening. This was not the first time that this issue was raised in the literature. Nor did this article have the final word on this topic. Nevertheless, it is highly informative. Ndulu and O’Connell (1999) apply basic growth accounting techniques to explain Africa’s growth performance in a comparative setting. You may benefit from their way of organizing vast amounts of complex data. Henry and Miller (2009) provide a nice comparative analysis of two island states to weigh “institutional” explanations against “policy-based” explanations—personally, a great read.

Lately, with a strong desire to “measure,” economists have relied on quantitative measures of highly subjective, and ill-defined concepts. Razafindrakoto and Roubaud (2010) illustrate several problems that arise in interpreting these measures in the context of corruption indexes.

Group project. Maximum 5 pages. 14 percent.

References

- Caselli, Francesco, 2005. Accounting for cross-country income differences. In: Aghion, Philippe, and Steven N. Durlauf (Eds.), *Handbook of Economic Growth*, Elsevier, Amsterdam, pp. 679–741.
- Diamond, Jared, 1997. *Guns, Germs, and Steel: The Fates of Human Societies*. Norton, New York.
- Engerman, Stanley, and Kenneth Sokoloff, 2011. Once upon a time in the Americas: Land and immigration policies in the New World. mimeo. URL http://economics.dal.ca/Files/Engerman_Evolution_of_Land.pdf.
- Henry, Peter Blair, and Conrad Miller, 2009. Institutions versus policies: A tale of two islands. *American Economic Review Papers and Proceedings* 99 (2), 261–267.
- Ndulu, Benno J., and Stephen A. O’Connell, 1999. Governance and growth in Sub-Saharan Africa. *Journal of Economic Perspectives* 13 (3), 41–66.
- Razafindrakoto, Mireille, and François Roubaud, 2010. Are international databases on corruption reliable? A comparison of expert opinion surveys and household surveys in Sub-Saharan Africa. *World Development* 38 (8), 1057–1069, URL <http://dx.doi.org/10.1016/j.worlddev.2010.02.004>.
- Temple, Jonathan, 1999. The new growth evidence. *Journal of Economic Literature* 37 (1), 112–156.
- Young, Alwyn, 1995. The tyranny of numbers: Confronting the statistical realities of East Asia. *Quarterly Journal of Economics* 110, 641–680.