

Development Economics

Professor Xiaobo Zhang

Office: National School of Development, #601

Office phone number: 62758563

Email: x.zhang@nsd.edu.pku.cn

TA: Jialiang Zhang (张佳梁, zhangjialiang@pku.edu.cn)

Classroom: National School of Development

Time: 2:00-5:00 pm, Monday

Fall 2018

Course description

This is a one-semester course in development economics. It targets students who have finished the basic courses and are looking for thesis or the second-year paper topics. In close interaction with me, each student will define and develop a specific topic, do a literature search and critical review, and write a term paper. In the process, I will guide the students to hone their observational, critical thinking, and logic writing skills.

During most of the semester, I will lecture on topics of interest to me, suggesting ideas for research and literatures for review. In the final week, students will present their own term papers. In between, students will work independently on the paper, interacting with me regularly and meeting various deadlines in relation to the writing of term papers. We will arrange a field trip on October 20-21 to visit Pingyu county in Henan Province. In addition, I will invite a few guest speakers to lecture in the class.

In this semester, I will focus on topics related to economic transformation, including division of labor, industrial policy, inequality, behavior of the poor, and the long-term welfare impact of the transformation. The themes are suggestive but not restrictive. Students can also explore other topics.

After each class, I'd be happy to have dinner together with up to five students. If you are interested in having dinner with me after the class, please talk to Jialiang.

Grade

We do not have a textbook for the class. The course does not have a final exam. All the registered students are required to write a term paper. There are three deadlines. Five points will be deducted for each overdue day passing the deadline. The term paper is expected to be around 35 pages (double space and inclusive of text, references, figures, and tables) in length if written in English. The class grade will be evaluated based on the quality of narrative (15 points), class attendance and participations (15 points, one point for each class

absence), the final paper (70 points) as well as the degree of meeting deadlines (potential negative points for missing deadlines).

Major references for the lectures

Lecture 1: Reflections on Development Thinking

Banerjee, Abhijit V. and Esther Duflo, 2011. *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*. PublicAffairs.

Bardhan, Pranab, 2013. "Little, Big: Two Ideas About Fighting Global Poverty." *Boston Review*. <http://bostonreview.net/world-books-ideas/pranab-bardhan-little-big>

Acemoglu, Daron, and James Robinson, 2012. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. University of Chicago Press.

Easterly, W., 2006. *The White Man's Burden: How the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. New York: Penguin.

Lin, Justin. 2012. *New Structural Economics: A framework for Rethinking Development*. World Bank.

Rodrik, Dani, 2009. *One Economics, Many Recipes*. Princeton University Press.

Lecture 2: Division of Labor and Structure of Production

Chapters 1-3 of Adam Smith' *Wealth of Nations*.

Becker, Gary S and Kevin M. Murphy, 1992. "The Division of Labor, Coordination Costs, and Knowledge," *Quarterly Journal of Economics*, 107(4): 1137-60.

Read, Leonard E. I, *Pencil*.

<http://www.commonseconomics.com/Readings/I.Pencil2006.FEE.pdf>.

Stigler, George J., 1951. "The Division of Labor is Limited by the Extent of the Market," *Journal of Political Economy*, 59 (3): 185-193.

Coase, Ronald and Wang, Ning, 2011. "The Industrial Structure of Production: A Research Agenda for Innovation in an Entrepreneurial Economy." *Entrepreneurship Research Journal*, 1 (2): 1-11.

Marshall, Alfred, 1920. *Principle of Economics*. Book IV: Chapters IX-XII.

Xing, Yuqing, and Neal Detert. 2010. "How the iPhone Widens the United States Trade Deficit with the People's Republic of China." Asia Development Bank Institute Working Paper Series No. 257.
<http://www.adbi.org/files/2010.12.14.wp257.iphone.widens.us.trade.deficit.prc.pdf>.

Lecture 3: Industrial Revolution

Allen, George C., 1929. *The Industrial Development of Birmingham and the Black Country, 1860-1929*. London: G. Allen & Unwin Ltd.

Allen, Robert, 2009. *The British Industrial Revolution in Global Perspective*, Cambridge University Press.

Brands, H.W. *American Colossus: The Triumph of Capitalism, 1965-1900*.

Chandler, Alfred D. Jr., 1977. *The Invisible Hand: The Managerial Revolution in American Business*. The Belknap Press of Harvard University Press, Cambridge, Massachusetts and London, England.

Lecture 4: Inner Working of Clusters

Banerjee, A. and Newman, A., 1993. "Occupational choice and the process of development." *Journal of Political Economy*, 101: 274-298.

Burgess, R. and Pande, R., 2005. "Do rural banks matter? Evidence from the Indian social banking experiment," *American Economic Review*, 95 (3): 780-795.

De Mel, S. McKenzie, D. J., and Woodruff, C. 2008. "Returns to capital in microenterprises: evidence from a field experiment." *Quarterly Journal of Economics*, 123 (4): 1329-72.

McMillan, J. and Woodruff, C., 1999. "Interfirm relationships and informal credit in Vietnam," *Quarterly Journal of Economics*, 114(1): 1285-1320.

Ruan, Jianqing and Zhang, Xiaobo, 2009. "Finance and Cluster-Based Industrial Development in China," *Economic Development and Cultural Change*, 58:143-164.

Long, Cheryl and Zhang, Xiaobo, 2011. "Cluster-Based Industrialization in China: Financing and Performance," *Journal of International Economics*. 84 (1): 112-123.

Lecture 5: Industrial Policy

Hausman, Ricardo and Rodrik, Dani, 2003. "Economic Development as a Self-Discovery." *Journal of Development Economics*, 72(2): 603-633.

Kahneman, Daniel, 2013. *Thinking, Fast and Slow*. [Chapters 25-30 explain the optimistic bias, omitting subjectivity, and theory-induced blindness. His most famous quote is "blind to our blindness." A related NYT article on confidence <https://www3.nd.edu/~ghaeffel/The%20Hazards%20of%20Confidence%20copy.pdf>.]

Krueger, Anne, 1974. The Political Economy of the Rent-Seeking Society. *American Economic Review*, 64(3): 291-303.

Lin, Justin. 2012. *New Structural Economics: A Framework for Rethinking Development*. World Bank. Available from <http://siteresources.worldbank.org/DEC/Resources/84797-1104785060319/598886-1104951889260/NSE-Book.pdf>. Chapter 3 "Growth Identification and Facilitation: The Role of the State in the Dynamics of Structural Change."

Xu, Chenggang and Xiaobo Zhang, 2009. The evolution of Chinese entrepreneurial firms: Township-village enterprises revisited. IFPRI Discussion Paper 854. Washington, D.C. International Food Policy Research Institute (IFPRI) <http://www.ifpri.org/sites/default/files/publications/ifpridp00854.pdf>.

Zhang, Xiaobo and Dinghuan Hu, 2011. Overcoming successive bottlenecks: The evolution of a potato cluster in China. IFPRI Discussion Paper 1112. Washington, D.C. International Food Policy Research Institute (IFPRI) <http://www.ifpri.org/sites/default/files/publications/ifpridp01112.pdf>.

Lecture 6: The Economics of Reform and Policy Change

Du, Runsheng, The course of China's rural reform. IFPRI Occasional Discussion Paper. <http://www.ifpri.org/sites/default/files/publications/oc52.pdf>.

Lin, Justin Yifu, 1992. "Rural Reforms and Agricultural Growth in China," *American Economic Review*, 82(1): 34-51.

Qian, Yingyi, 2001. How reform worked in China? <http://mysite.avemaria.edu/gmartinez/Courses/ECON320/pdf/Qian%20How%20Reform%20Worked%20in%20China.pdf>.

Ruan, Jianqing, and Xiaobo Zhang, 2010. "Made in China, Crisis begets quality upgrade. IFPRI Discussion Paper 1025. Washington, D.C. International Food Policy Research Institute (IFPRI). <http://www.ifpri.org/sites/default/files/publications/ifpridp01025.pdf>.

Xing, Haipeng and Xiaobo Zhang, 2013. "The logic of adaptive sequential experimentation in policy design." Washington, D.C. International Food Policy Research Institute (IFPRI). <http://www.ifpri.org/publication/logic-adaptive-sequential-experimentation-policy-design>.

Lecture 7: Aid

Bulte, Erwin, Lihe Xu, and Xiaobo Zhang. 2018. "Post-disaster Aid and Development of the Manufacturing Sector: Lessons from a Natural Experiment in China." *European Economic Review*, 101: 441–458.

Burnside, Craig, and David Dollar. 2000. Aid, Policies, and Growth. *American Economic Review*, 90(4): 847-868.

Easterly, W., 2006. *The White Man's Burden: How the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. New York: Penguin.

Nunn, N. and N. Qian, 2014. US Food Aid and Civil Conflict. *American Economic Review* 104: 1630-1666.

Munk, Nina, 2013. *The Idealist: Jeffrey Sachs and the Quest to End Poverty*. Doubleday.

Lecture 8: Structural Transformation and Labor Market (Lewis Turning Point)

China's Great Economic Transformation, ed. Loren Brandt and Thomas Rawski, Cambridge University Press, 2008. Published in Chinese in China, October 2009.

Cai, Fang, 2010. "Demographic transition, demographic dividend, and Lewis turning point in China." *China Economic Journal*. 3(2): 107-109.

Gollin, Douglas, 2014. "The Lewis Model: A 60-Year Retrospective." *Journal of Economic Perspectives*, 28 (3): 71–88.

Lewis, W. A., 1954. "Economic Development with Unlimited Supplies of Labor," *The Manchester School*, 22: 139–176 and 189-191.

Zhang, X., J. Yang, and S. Wang. 2011. China Has Reached the Lewis Turning Point," *China Economic Review*, 22: 542-554.

Lecture 9: Welfare Implications of Economic Transformation I: Poverty and Inequality

Fan, Shenggen, Ravi Kanbur, and Xiaobo Zhang, 2009. *Regional Inequality in China: Trends, Explanations and Policy Responses*. Routledge. [One key chapter has been

published in “Fifty Years of Regional Inequality in China: A Journey Through Central Planning, Reform and Openness,” (R. Kanbur and X. Zhang), *Review of Development Economics*, 9(1): 87-106, January 2005.]

Knight, John, Lina Song, and R. Gunatilaka, 2009. “Subjective well-being and its determinants in rural China,” *China Economic Review*, 20 (4): 635-649.

Piketty, Thomas, 2014. *Capital in the Twenty-First Century*. Cambridge, MA: Belknap Press.

Ravallion, M., and S. Chen. 2007. “China’s (Uneven) Progress against Poverty.” *Journal of Development Economics* 82:1–42.

Kanbur, Ravi, Yue Wang, and Xiaobo Zhang, 2017. “The Great Chinese Inequality Turnaround.” IZA Discussion Paper No. 10635.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2940625.

Lecture 10: Welfare Implications of Economic Transformation II: Health

Almond, Douglas and Janet Currie, 2011. “Killing me softly: The fetal origins hypothesis.” *Journal of Economic Perspective*, 25 (3): 153-72.

Chen, Xi and Xiaobo Zhang, 2012. “Costly Posturing: Relative Status, Ceremonies and Early Child Development,” UNU-WIDER Working Paper #2012/70 (or IFPRI Discussion Paper <http://ebrary.ifpri.org/cdm/ref/collection/p15738coll2/id/127126>).

Chen, Yuyu, Avraham Ebenstein, Michael Greenstone, and Hongbin Li, 2013. “Evidence on the impact of sustained exposure to air pollution on life expectancy from China’s Huai River policy.” *Proceedings of National Academy of Sciences*.
<http://www.pnas.org/content/early/2013/07/03/1300018110.abstract>.

Mu, Ren and Xiaobo Zhang, 2011. “Why Does the Great Chinese Famine Affect the Male and Female Survivors Differently? Mortality Selection versus Son Preference.” *Economics & Human Biology*, 9: 92–105.

Tan, Chih Ming, Zhibo Tan, and Xiaobo Zhang, 2014. “Sins of the Fathers: The Intergenerational Legacy of the 1959–1961 Great Chinese Famine on Children’s Cognitive Development.” IFPRI Discussion Paper 01351. Available from <http://www.ifpri.org/sites/default/files/publications/ifpri01351.pdf>.

Zhang, Xin, Xi Chen, and Xiaobo Zhang, 2018. “The Impact of Exposure to Air Pollution on Cognitive Performance,” *Proceedings of National Academy of Science*, Aug 2018, 201809474; DOI: 10.1073/pnas.1809474115.

Time table

9/17: Lecture.

9/24: Mid-Autumn Festival holiday. No lecture

10/1: National Independence holiday. No lecture

During the National Day holidays, students are required to write a short observational narrative related to daily economic phenomena.

10/7: Deadline to submit holiday narratives.

10/8: Lecture. Some students will be randomly selected to give five-minute presentations of their narratives on the spot.

10/15: Lecture

10/22: Lecture

10/28: Deadline for submitting a 5-page outline.

10/29: Lecture

11/5: Lecture

11/12: Lecture

11/19: Lecture

11/26: Lecture

12/3: Lecture

12/10: Lecture

12/17: Lecture

12/23: Turn in preliminary draft of term paper

12/24: Class presentations of preliminary term papers

Morning of 12/27: Class presentations of preliminary term papers (time and venue to be decided)

12/24-2/14: Revising term paper based on comments received in the class

2/14: Deadline for submission of 35-page draft. NO EXCEPTIONS