

Contents

Preface	xv
Chapter 1: Introduction	3
Chapter 2: Economic Development: Overview	7
2.1. Introduction	7
2.2. Income and growth	10
2.2.1. Measurement issues	10
2.2.2. Historical experience	16
2.3. Income distribution in developing countries	21
2.4. The many faces of underdevelopment	25
2.4.1. Human development	25
2.4.2. An index of human development	27
2.4.3. Per capita income and human development	29
2.5. Some structural features	33
2.5.1. Demographic characteristics	34
2.5.2. Occupational and production structure	34
2.5.3. Rapid rural–urban migration	36
2.5.4. International trade	38
2.6. Summary	42
Exercises	44
Chapter 3: Economic Growth	47
3.1. Introduction	47
3.2. Modern economic growth: Basic features	48
3.3. Theories of economic growth	51
3.3.1. The Harrod–Domar model	51
3.3.2. Beyond Harrod–Domar: Other considerations	58
3.3.3. The Solow model	64
3.4. Technical progress	71
3.5. Convergence?	74
3.5.1. Introduction	74
3.5.2. Unconditional convergence	74
3.5.3. Unconditional convergence: Evidence or lack thereof	75
3.5.4. Unconditional convergence: A summary	80
3.5.5. Conditional convergence	82
3.5.6. Reexamining the data	84
3.6. Summary	88

Appendix 90

3.A.1. The Harrod–Domar equations 90 • 3.A.2. Production functions and per capita magnitudes 91

Exercises 94

Chapter 4: The New Growth Theories 99

4.1. Introduction 99

4.2. Human capital and growth 100

4.3. Another look at conditional convergence 105

4.4. Technical progress again 107

4.4.1. Introduction 107 • 4.4.2. Technological progress and human decisions 108 • 4.4.3. A model of deliberate technical progress 109 • 4.4.4. Externalities, technical progress, and growth 112 • 4.4.5. Total factor productivity 117

4.5. Total factor productivity and the East Asian miracle 119

4.6. Summary 123

Appendix: Human capital and growth 125

Exercises 126

Chapter 5: History, Expectations, and Development 131

5.1. Introduction 131

5.2. Complementarities 132

5.2.1. Introduction: QWERTY 132 • 5.2.2. Coordination failure 136 •

5.2.3. Linkages and policy 138 • 5.2.4. History versus expectations 143

5.3. Increasing returns 147

5.3.1. Introduction 147 • 5.3.2. Increasing returns and entry into markets 148 • 5.3.3. Increasing returns and market size: Interaction 150

5.4. Competition, multiplicity, and international trade 152

5.5. Other roles for history 155

5.5.1. Social norms 155 • 5.5.2. The status quo 156

5.6. Summary 159

Exercises 161

Chapter 6: Economic Inequality 169

6.1. Introduction 169

6.2. What is economic inequality? 170

6.2.1. The context 170 • 6.2.2. Economic inequality: Preliminary observations 171

6.3. Measuring economic inequality 173

6.3.1. Introduction 173 • 6.3.2. Four criteria for inequality measurement 174 • 6.3.3. The Lorenz curve 178 • 6.3.4. Complete measures of inequality 184

6.4. Summary 192

Exercises 193

Chapter 7: Inequality and Development: Interconnections 197

7.1. Introduction 197

7.2. Inequality, income, and growth 199

7.2.1. The inverted-U hypothesis 199 • 7.2.2. Testing the inverted-U hypothesis 201 • 7.2.3. Income and inequality: Uneven and compensatory changes 209 • 7.2.4. Inequality, savings, income, and growth 211 • 7.2.5. Inequality, political redistribution, and growth 218 • 7.2.6. Inequality and growth: Evidence 220 • 7.2.7. Inequality and demand composition 223 • 7.2.8. Inequality, capital markets, and development 226 • 7.2.9. Inequality and development: Human capital 237

7.3. Summary 238

Appendix: Multiple steady states with imperfect capital markets 241

Exercises 244

Chapter 8: Poverty and Undernutrition 249

8.1. Introduction 249

8.2. Poverty: First principles 250

8.2.1. Conceptual issues 250 • 8.2.2. Poverty measures 253

8.3. Poverty: Empirical observations 256

8.3.1. Demographic features 257 • 8.3.2. Rural and urban poverty 259 • 8.3.3. Assets 259 • 8.3.4. Nutrition 261

8.4. The functional impact of poverty 267

8.4.1. Poverty, credit, and insurance 268 • 8.4.2. Poverty, nutrition, and labor markets 272 • 8.4.3. Poverty and the household 279

8.5. Summary 288

Appendix: More on poverty measures 290

Exercises 292

Chapter 9: Population Growth and Economic Development 295

9.1. Introduction 295

9.2. Population: Some basic concepts 297

9.2.1. Birth and death rates 297 • 9.2.2. Age distributions 300

9.3. From economic development to population growth 302

9.3.1. The demographic transition 302 • 9.3.2. Historical trends in developed and developing countries 303 • 9.3.3. The adjustment of birth rates 307 • 9.3.4. Is fertility too high? 318

9.4. From population growth to economic development 326
9.4.1. Some negative effects 326 • 9.4.2. Some positive effects 332

9.5. Summary 338

Exercises 340

Chapter 10: Rural and Urban 345

10.1. Overview 345

10.1.1. The structural viewpoint 345 • 10.1.2. Formal and informal urban sectors 346 • 10.1.3. Agriculture 348 • 10.1.4. The ICRISAT villages 349

10.2. Rural–urban interaction 353

10.2.1. Two fundamental resource flows 353 • 10.2.2. The Lewis model 353

10.3. Rural–urban migration 372

10.3.1. Introduction 372 • 10.3.2. The basic model 373 • 10.3.3. Floors on formal wages and the Harris–Todaro equilibrium 374 •

10.3.4. Government policy 379 • 10.3.5. Comments and extensions 386

10.4. Summary 395

Exercises 398

Chapter 11: Markets in Agriculture: An Introduction 403

11.1. Introduction 403

11.2. Some examples 404

11.3. Land, labor, capital, and credit 409

11.3.1. Land and labor 409 • 11.3.2. Capital and credit 412

Chapter 12: Land 415

12.1. Introduction 415

12.2. Ownership and tenancy 416

12.3. Land rental contracts 420

12.3.1. Contractual forms 420 • 12.3.2. Contracts and incentives 423 •

12.3.3. Risk, tenancy, and sharecropping 431 • 12.3.4. Forms of tenancy: Other considerations 436 • 12.3.5. Land contracts, eviction, and use rights 441

12.4. Land ownership 445

12.4.1. A brief history of land inequality 445 • 12.4.2. Land size and productivity: Concepts 446 • 12.4.3. Land size and productivity: Empirical evidence 453 • 12.4.4. Land sales 456 • 12.4.5. Land reform 457

12.5. Summary 462

Appendix 1: Principal-agent theory and applications 463

12.A.1. Risk, moral hazard, and the agency problem 463 •

12.A.2. Tenancy contracts revisited 466

Appendix 2: Screening and sharecropping 474

Exercises 478

Chapter 13: Labor 483

13.1. Introduction 483

13.2. Labor categories 484

13.3. A familiar model 486

13.4. Poverty, nutrition, and labor markets 489

13.4.1. The basic model 489 • 13.4.2. Nutrition, time, and casual labor markets 499 • 13.4.3. A model of nutritional status 500

13.5. Permanent labor markets 504

13.5.1. Types of permanent labor 504 • 13.5.2. Why study permanent labor? 505 • 13.5.3. Permanent labor: Nonmonitored tasks 507 •

13.5.4. Permanent labor: Casual tasks 515

13.6. Summary 522

Exercises 524

Chapter 14: Credit 529

14.1. Introduction 529

14.1.1. The limits to credit and insurance 529 • 14.1.2. Sources of demand for credit 531

14.2. Rural credit markets 532

14.2.1. Who provides rural credit? 532 • 14.2.2. Some characteristics of rural credit markets 540

14.3. Theories of informal credit markets 543

14.3.1. Lender's monopoly 543 • 14.3.2. The lender's risk hypothesis 544 • 14.3.3. Default and fixed-capital loans 545 •

14.3.4. Default and collateral 546 • 14.3.5. Default and credit rationing 548 • 14.3.6. Informational asymmetries and credit rationing 553 • 14.3.7. Default and enforcement 555

14.4. Interlinked transactions 561

14.4.1. Hidden interest 563 • 14.4.2. Interlinkages and information 564 • 14.4.3. Interlinkages and enforcement 564 •

14.4.4. Interlinkages and creation of efficient surplus 565

14.5. Alternative credit policies 572

14.5.1. Vertical formal-informal links 573 • 14.5.2. Microfinance 578

14.6. Summary 584

Exercises 586

Chapter 15: Insurance

591

- 15.1. Basic concepts 591
- 15.2. The perfect insurance model 596
 - 15.2.1. Theory 596 • 15.2.2. Testing the theory 597
- 15.3. Limits to insurance: Information 600
 - 15.3.1. Limited information about the final outcome 601 •
 - 15.3.2. Limited information about what led to the outcome 602
- 15.4. Limits to insurance: Enforcement 605
 - 15.4.1. Enforcement-based limits to perfect insurance 606 •
 - 15.4.2. Enforcement and imperfect insurance 608
- 15.5. Summary 615
- Exercises 617

Chapter 16: International Trade

621

- 16.1. World trading patterns 621
- 16.2. Comparative advantage 627
- 16.3. Sources of comparative advantage 630
 - 16.3.1. Technology 630 • 16.3.2. Factor endowments 631 •
 - 16.3.3. Preferences 636 • 16.3.4. Economies of scale 638
- 16.4. Summary 643
- Exercises 644

Chapter 17: Trade Policy

647

- 17.1. Gains from trade? 647
 - 17.1.1. Overall gains and distributive effects 647 • 17.1.2. Overall losses from trade? 650
- 17.2. Trade policy: Import substitution 656
 - 17.2.1. Basic concepts 657 • 17.2.2. More detail 660
- 17.3. Export promotion 676
 - 17.3.1. Basic concepts 677 • 17.3.2. Effect on the exchange rate 678 •
 - 17.3.3. The instruments of export promotion: More detail 679
- 17.4. The move away from import substitution 684
 - 17.4.1. Introduction 684 • 17.4.2. The eighties crisis 685 •
 - 17.4.3. Structural adjustment 690
- 17.5. Summary 699

Appendix: The International Monetary Fund and the World

- Bank 701
- Exercises 705

Chapter 18: Multilateral Approaches to Trade Policy

711

- 18.1. Introduction 711
- 18.2. Restricted trade 714
 - 18.2.1. Second-best arguments for protection 714 • 18.2.2. Protectionist tendencies 715 • 18.2.3. Explaining protectionist tendencies 717
- 18.3. Issues in trade liberalization 725
 - 18.3.1. Introduction 725 • 18.3.2. Regional agreements: Basic theory 727 • 18.3.3. Regional agreements among dissimilar countries 730 • 18.3.4. Regional agreements among similar countries 735 • 18.3.5. Multilateralism and regionalism 746
- 18.4. Summary 753
- Exercises 755

Appendix 1: Elementary Game Theory

757

- A1.1. Introduction 757
- A1.2. Basic concepts 757
- A1.3. Nash equilibrium 759
- A1.4. Games over time 767

Appendix 2: Elementary Statistical Methods

777

- A2.1. Introduction 777
- A2.2. Summary statistics 778
- A2.3. Regression 783

References

805

Author Index

829

Subject Index

835