

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