Contents

1	Overview						
	1.1						
	1.2	Early 7	Theory	4			
	1.3		e	6			
	1.4	Stylize	ed Facts Associated with Economic Development	7			
	1.5	Policies Examined					
	Refe	erences .		8			
Pa	rt I	Introdu	ction to Economic Growth				
2	Neoclassical Growth Theory						
	2.1	Firms,	Production, and the Demand for Capital	12			
	2.2	Housel	hold Saving and the Supply of Capital	15			
		2.2.1	The Supply of Labor and Capital	16			
		2.2.2	Household Saving	17			
		2.2.3	Supply of Capital Per Worker	18			
	2.3	2.3 Competitive Equilibrium in a Growing Economy					
		2.3.1	Steady-State Growth—Technical Progress	22			
	2.4 Intergenerational Transfers						
		2.4.1	Altruism*	26			
		2.4.2	Explicit Household-Level Solutions in Some				
			Special Cases*	28			
		2.4.3	Warm Glow	32			
	2.5	Quantitative Theory					
	2.6	Related Literature					
	2.7	Exercises					
	App	pendix*					
				49			

3	Exte	tensions to Neoclassical Growth Theory	51
	3.1	A Theory of Income Differences	52
		3.1.1 Households	52
		3.1.2 Firms	57
		3.1.3 Capital Market Equilibrium	58
		3.1.4 Government	59
		3.1.5 Steady-State Equilibria	61
	3.2	Cross-Country Income Differences	61
	3.3	Poverty Traps: A Closer Look	65
	3.4	\boldsymbol{c}	67
		1	68
		· · · · · · · · · · · · · · · · · · ·	69
	3.5	<i>U</i>	70
			70
		1 6	72
		Ç , 1	75
		•	78
	3.6		79
	3.7		80
		C	81
			81
			81
	3.8		82
	3.9		82
	3.10		83
	3.11		83
Appendix*			85
	Refe	erences	87
4	Two-	o-sector Growth Models	91
	4.1		91
		•	93
			95
	4.2		97
		•	98
			99
			99
			01
	4.3		02
		4.3.1 Labor Market Equilibrium	02
		4.3.2 Goods Market Equilibrium	03
		4.3.3 Land Market Equilibrium	04
			04

	4.4 4.5 4.6 Refer	Conclu Exerci	Steady-state Equilibrium Transitional Dynamics*. International Trade Transitional Dynamics in an Open Economy* ing Budget Shares Spent on Food usion ses.	105 106 109 111 112 116 117 119
Pa	rt II	Dual E	conomies	
5	Wag	e and F	ertility Gaps in Dual Economies	123
	5.1	Wage	and Fertility Gaps	123
	5.2		tly Competitive Markets in the Traditional Sector	126
		5.2.1	Urban Unemployment	126
		5.2.2	Human Capital Gaps	127
		5.2.3	Unmeasured Home Production	128
		5.2.4	Taxes, Fees, and Migration Costs	128
		5.2.5	Summary	129
	5.3	Missin	g Land Markets in the Traditional Sector	129
		5.3.1	Modern Sector	131
		5.3.2	Traditional Sector	133
		5.3.3	Equilibrium	136
		5.3.4	Summary	138
	5.4	Missin	g Labor Markets in the Traditional Sector*	138
		5.4.1	Endogenous Work	139
		5.4.2	Schooling and Fertility	140
		5.4.3	Summary	141
	5.5	The Fo	orces that Bind Us: Missing Markets	
		and La	bor Mobility	142
		5.5.1	Missing Land Markets in Historical Development	142
		5.5.2	Missing Land Markets in Cities of Currently	
			Developing Countries	143
		5.5.3	Missing Credit and Insurance Markets	
			in Current Development	144
	5.6	Asian (Growth Miracles	145
		5.6.1	Asia and Africa	146
	5.7		tivity Gaps: Measurement and Interpretation	147
		5.7.1	Average Product of Labor	148
		5.7.2	Hours Gap	148
		5.7.3	Human Capital Gap	149

		5.7.4 5.7.5	Average and Marginal Products of Human Capital The Structural Transformation, Growth,	150		
			and Economic Efficiency	151		
	5.8	Rising	Fertility in Early Development	152		
	5.9	_	Child Policy	153		
	5.10		usion	155		
	5.11		ses	155		
	Refe			157		
6	Physical Capital in Dual Economies					
	6.1	_	r-owned Land I—Wages Gap in US History	163		
		6.1.1	Modern Sector	164		
		6.1.2	Traditional Sector	164		
		6.1.3	Households	165		
		6.1.4	Equilibrium	168		
		6.1.5	Labor Productivity	171		
	6.2	Farme	r-owned Land II—Deindustrialization			
		in the	Ottoman Empire*	174		
		6.2.1	The Model	175		
		6.2.2	Migrants	176		
		6.2.3	Craftsmen	177		
		6.2.4	Farmers	178		
		6.2.5	Labor Market Equilibrium	178		
		6.2.6	Capital Market Equilibrium	179		
		6.2.7	The Urban/Manufacturing Share			
			and Aggregate Output	180		
		6.2.8	Calibration	181		
		6.2.9	Counterfactual Simulation	182		
	6.3	Other '	Theories of Trade and Growth	176 177 178 178 179 180 181 182 184		
		6.3.1	Reduced Incentives for Human Capital Investment	184		
		6.3.2	Efficiency Advantages and External Effects			
			from Urbanization	185		
		6.3.3	Power of Anti-growth Landowners	186		
		6.3.4	Volatility and Growth	186		
	6.4	Large 1	Landowners—Growth and Endogenous Fiscal Policy	187		
		6.4.1	Households	188		
		6.4.2	Open Economy	189		
		6.4.3	Government Policy	189		
	6.5	Conclu	sion	192		
	6.6	Exercis	ses	193		

7	A C		Dual Economy	199		
	7.1	The D	ual Economy	201		
		7.1.1	Production Technologies and Factor Prices	201		
		7.1.2	Household Behavior	202		
		7.1.3	Labor Market Equilibrium and Locational Choice	204		
		7.1.4	Capital Market Equilibrium	207		
	7.2	Transit	tional Growth in the Long Run	208		
		7.2.1	Calibration and Numerical Analysis	209		
	7.3		Waves of Growth	213		
	7.4	South	Korea: A Development Success Story	215		
		7.4.1	The Onset of Growth	216		
		7.4.2	Growth Acceleration	216		
		7.4.3	Lessons	217		
		7.4.4	Challenges	218		
	7.5	Humar	n Capital Extensions	220		
		7.5.1	Goods Inputs	221		
		7.5.2	Community Externalities	221		
		7.5.3	Health Investments	222		
	7.6	Conve	rgence Revisited	222		
	7.7	Politics	s and Growth	225		
		7.7.1	Natural Resources and the Politics Trap	226		
	7.8	Conclusion				
	7.9	Exercises				
	Refer	rences .		228		
0	TT 1			231		
8	Urbanization					
	8.1		Bias	234		
		8.1.1	Production	234		
		8.1.2	Households	236		
		8.1.3	Demographics	238		
		8.1.4	Migration in Equilibrium	238		
		8.1.5	Government	239		
		8.1.6	Efficient Urban Bias	239		
	8.2		n and Urbanization	241		
		8.2.1	Urbanization with Balanced Growth	241		
		8.2.2	Urbanization Without Balanced Growth	242		
		8.2.3	Redistributive Urban Bias	244		
	8.3		ions*	244		
		8.3.1	Government Transfers	244		
		8.3.2	Endogenous Taxation	247		
		8.3.3	Impure Public Goods	248		
	8.4	City Si	ze and Development	250		

	8.5	Urbani	ization Today: New Mechanisms and Consequences	252		
		8.5.1	Consumption Cities: Urbanization			
			Without Industrialization	252		
		8.5.2	Mushroom Cities: The Traditional Sector Grows			
			in the City	253		
		8.5.3	Urbanization Without Growth Revisited	253		
		8.5.4	Slums	254		
	8.6	Hukou		255		
	8.7	De-urbanization: Past and Present				
	8.8		ısion	257		
	8.9					
	Refe	References				
9	Conc	clusion .		261		
	9.1	The Onset of Growth		261		
		9.1.1	The Appearance of a Modern Sector	261		
		9.1.2	Poverty Traps and Schooling	262		
	9.2	The Na	Nature of Modern Growth			
	9.3	Policy Implications				
		9.3.1	Domestic Growth Policy	264		
		9.3.2	International Trade, Capital Mobility,			
			and Foreign Aid	265		
	9.4	Ideas fo	or Future Research	266		
'n	dev			260		