



**Subject: Economic Development/Resource Curse/Income Inequality**

**Number: EBG542**

**Course Title: Economic Development**

**Section: A**

**Semester/year: Fall 2015**

**Instructor: Graham A. Davis**

**Contact information (Office/Phone/Email): EH325/303 273-3550/gdavis@mines.edu**

**Office hours: These will change week to week. I will send an email out each week with my office hours for that week.**

**Class meeting days/times: Mondays and Wednesdays 10:30 AM – 11:45 AM**

**Class meeting location: EH211**

**Instructional activity:** 3 hours lecture 0 hours lab 3 semester hours

**Course designation:**  Common Core  Distributed Science or Engineering  
 Major requirement  Elective  Other (please describe \_\_\_\_\_)

**Course description from Bulletin:** Role of energy and minerals in the development process. Sectoral policies and their links with macroeconomic policies. Special attention to issues of revenue stabilization, resource largesse effects, downstream processing, and diversification. Prerequisites: Principles of Microeconomics, MATH111, EBG509, EBG511, EBG512; or permission of instructor.

**Textbook and/or other requirement materials:**

Required text: Deaton, Angus. *The Great Escape: Health, Wealth, and the Origins of Inequality*. Princeton: Princeton University Press, 2015. Print.

Required text: Lederman, Daniel and William F. Maloney, (eds.). *Natural Resources, Neither Curse nor Destiny*. Washington DC: The World Bank, 2006. Print.

Required text: Ross, Michael. *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. Princeton: Princeton University Press, 2013. Print.

Other required supplemental information: will be provided on Blackboard

**Prerequisites:** This is a third-semester course intended for students that have completed previous courses in microeconomics and econometrics.

**Learning outcomes: At the conclusion of the class students will...**

1. Be able to articulate current thinking on the measurement of, causes of and progress in economic development across the world
2. Be able to evaluate why different nations and races have not progressed equally
3. Be able to apply the principles of mineral and energy economics, both theoretical and empirical, to parse and address the various views on whether mineral and energy production advances or impedes economic development in regions and nations
4. Collect and analyze economic development data to verify existing research on the resource curse
5. Be able to summarize the historic and current literature on resource-based development.

**Faculty learning outcomes: At the conclusion of the class the instructor will...**

1. Become more familiar with new books and articles on the resource curse
2. Be more familiar with new and innovative technological tools as used by today's youth
3. Have learned current and real-world economic development issues from his students
4. Have ideas for how to change and improve the course for the next offering

**Brief list of topics covered:**

1. What is economic development?
2. Current thinking on resource extraction and income inequality
3. The oil curse – the political economy viewpoint
4. The oil curse – the economic viewpoint
5. The changing view on resource extraction and development
6. Sustainability
7. Expropriation of Mineral Assets

**Policy on academic integrity/misconduct:** The Colorado School of Mines affirms the principle that all individuals associated with the Mines academic community have a responsibility for establishing, maintaining and fostering an understanding and appreciation for academic integrity. In broad terms, this implies protecting the environment of mutual trust within which scholarly exchange occurs, supporting the ability of the faculty to fairly and effectively evaluate every student's academic achievements, and giving credence to the university's educational mission, its scholarly objectives and the substance of the degrees it awards. The protection of academic integrity requires there to be clear and consistent standards, as well as confrontation and sanctions when individuals violate those standards. The Colorado School of Mines desires an environment free of any and all forms of academic misconduct and expects students to act with integrity at all times.

Academic misconduct is the intentional act of fraud, in which an individual seeks to claim credit for the work and efforts of another without authorization, or uses unauthorized materials or fabricated information in any academic exercise. Student Academic Misconduct arises when a student violates the principle of academic integrity. Such behavior erodes mutual trust, distorts the fair evaluation of academic achievements, violates the ethical code of behavior upon which education and scholarship rest, and undermines the credibility of the university. Because of the serious institutional and individual ramifications, student misconduct arising from violations of academic integrity is not tolerated at Mines. If a student is found to have engaged in such misconduct sanctions such as change of a grade, loss of institutional privileges, or academic suspension or dismissal may be imposed.

The complete policy is [online](#).

Since there are no proctored exams, and since I am to give you a grade that signals to the broader community your individual competence in this area, I must insist that the weekly projects and the take-home exam be done individually unless I have approved group work. Some discussion amongst

yourselves is of course healthy and valuable, and I encourage this. I also encourage you to share data downloaded from public sources, and to learn from each other. But I do not want to see joint production. I cannot emphasize this enough. If I find that students are working together, all parties involved will be awarded an F for the assignment and possibly the course.

**Grading Procedures:** Assignments, projects and exams that have a quality acceptable for graduate credit will be awarded a grade of A (4.0), A- (3.7), B+ (3.3), or B (3.0), with the grade reflecting the proficiency of the work. Work that is below par but may be acceptable for graduate credit if sufficient acceptable work is done in this class and in other classes such that a 3.0 GPA can be maintained will be awarded grades of B- (2.7), C+ (2.3), C (2.0), or C- (1.7), with the grade reflecting the proficiency of the work. Work that is unacceptable for graduate credit is awarded a grade of D+ (1.3), D (1.0), D- (0.7), or F (0.0), with the grade reflecting the proficiency of the work. The final grade for the course will be a weighted average of the grades on the assignments and the exams, calculated just as a grade point average is calculated.

**Coursework Return Policy:** I will endeavor to return assignments and exams, with comments and a grade, within 7 days of receiving them, and in all cases within 14 days of receiving them.

**Absence Policy:** There is a substantial class participation grade that motivates you to attend. If you miss class or miss handing in or presenting an assignment or taking an exam because of an event that CSM classifies as an “excused absence” (see <http://inside.mines.edu/Student-Absences>), I will allow you to present or hand in substitute work that makes up the lost ground.

**Homework:** Due to the fact that we may discuss assignments in class, homework and assignments must be turned in by the time they are due. For this reason I suggest you do not plan to complete and hand in assignments at the very last minute.

**The Writing Center:** The Writing Center provides free one-on-one tutoring to members of the CSM community to assist them with any writing project and with any stage of the writing process. Our expert, professional consultants can help with brainstorming, organization, citation and documentation, and mechanics, on first and final drafts and everything in between. While we don't proofread or edit papers, we give writers the tools and techniques they need to learn how. To make an appointment, please visit our online scheduling system at: <http://mines.mywconline.com>. Questions can be directed to Sara Hitt, Writing Center Director, at: [sjhitt@mines.edu](mailto:sjhitt@mines.edu) or 303-273-3484.

**Course Tools:** Blackboard is the point of reference for all materials each week.

**Course Design and Requirements:** Despite my love of mathematical modeling, of which there will be plenty, I anticipate that there will also be a fair amount of rhetorical discussion in the class. To encourage and reward preparation and participation in class I am going to have a class participation grade. To avoid the pressure to say something in class, sometimes which turns out to be thoughtless commentary, the participation grade is based solely on attendance. One unexcused absence is free. Two unexcused absences will result in a single grade demerit for the participation grade (A to A-). Three unexcused absences will result in an additional demerit, and so on. There will be one exam (a midterm take-home exam in week 7) and a research or replication paper due in finals week. In addition I will have a short assignment related to each class's readings. Weights are as follows:

Attendance	30 points
Short assignments	25 points
Midterm take-home exam	25 points
Research paper/replication paper	<u>20 points</u>
Total	100 points

**Detailed Course Description and Schedule:** The extraction and export of non-renewable resources has long garnered special attention within the field of economic development. Originally thought to be beneficial, the resource curse arose in the 1970s as the proposition that countries that extract resources are cursed. Of late the curse has been proposed to be “exorcized.” While a fairly narrow topic, the resource curse is important to any participant in the extractive industries. In the class I explain why.

Though I have my own firm beliefs on the resource curse the class presents both sides of the argument, and lets you, the student, decide on whether resources are good for development, bad for development, or immaterial. I start with a generic overview of economic development and how it is measured. I then proceed to a chronological review of the literature and the swings in the debate, ending with the latest research on the topic. Along the way we will read a book by a prominent political economist so that you can see how that field's methodology differs from ours. The weekly schedule follows. Each week I will post on Blackboard discussion points to help you think about the readings I have provided for that week.

### **Weekly Outline (All references MLA style)**

#### **I. What is Economic Development?**

Week 1 Introduction, The Wellbeing of the World

Deaton, Chapter 1.

Week 2 Measuring Wellbeing

Deaton, Chapters 2 through 4.

Week 3 Paths to Prosperity

Deaton, Chapters 5 through 7, Postscript.

#### **II. The Resource Curse Theory and Empirics (1982 to 2005)**

Week 4 Booming Sector Economics

Corden, W. Max, and J. Peter Neary. "Booming Sector and Deindustrialization in a Small Open Economy." *Economic Journal* 92 (1982): 825-848. Print.

Corden, W. Max. "Booming Sector and Dutch Disease Economics: Survey and Consolidation." *Oxford Economic Papers* 36.3 (1984): 359-380. Print.

Week 5 A Disease After All?

van Wijnbergen, Sweder. "The 'Dutch Disease': A Disease After All?" *Economic Journal* 94.373 (1984): 41-55. Print.

Sachs, Jeffrey D., and Andrew M. Warner. "Natural Resource Abundance and Economic Growth." Center for International Development and Harvard Institute for International Development (1997). Print.

Week 6 Modeling the Resource Curse

Davis, Graham A. "The Resource Drag." *International Economics and Economic Policy* 8 (2011): 115-176. Print. (Read sections 1 through 3)

Sachs, Jeffrey D., and Andrew M. Warner. "Natural Resource Abundance and Economic Growth." National Bureau of Economic Research Working Paper 5398 (1995). Print.

Torvik, Ragnar. "Learning by Doing and the Dutch Disease." *European Economic Review* 45 (2001): 285-306. Print.

Week 7 Take-home Midterm Exam

Davis, Graham A., and John E. Tilton. "The Resource Curse." *Natural Resources Forum* 29 (2005): 233-242. Print.

**III. Not So Fast: The World Bank View (2006)**

Week 8 Neither Curse nor Destiny

Lederman and Maloney, Chapters 1, 2, and 3.

Week 9 Neither Curse nor Destiny

Lederman and Maloney, Chapters 4, 7 and 8.

Davis, Graham A. Rev. of *Escaping the Resource Curse*, eds. Macartan Humphreys, Jeffrey D. Sachs, and Joseph E. Stiglitz. *Resources Policy* 33 (2008): 240-242. Print.

Davis, Graham A. Rev. of *Natural Resources: Neither Curse nor Destiny*, eds. Daniel Lederman and William F. Maloney. *Resources Policy* 33 (2008): 243-245. Print.

**IV. The Oil Curse from a Political Economy Perspective (2013)**

Week 10 The Oil Curse

Ross, Chapters 1 through 4.

Week 11 The Oil Curse

Ross, Chapters 5 through 7.

## V. The Modern Empirical Evidence (2011 – 2015)

### Week 12 In Search of the Curse

Alexeev, Michael, and Robert Conrad. "The Elusive Curse of Oil." *Review of Economics and Statistics* 91.3 (2009): 586-598. Print.

Davis, Graham A. "The Resource Drag." *International Economics and Economic Policy* 8 (2011): 115-176. Print. (Read sections 4 through 7)

Smith, Brock. "The Resource Curse Exorcised: Evidence from a Panel of Countries." *Journal of Development Economics* 116 (2015): 57-73. Print.

### Week 13 Regional and National Income Inequality

Aragón, Fernando M., and Juan Pablo Rud. "Natural Resources and Local Communities: Evidence from a Peruvian Gold Mine." *American Economic Journal: Economic Policy* 5.2 (2013): 1-25. Print.

Loayza, Norman, Alfredo Mier y Teran, and Jamele Rigolini. "Poverty, Inequality, and the Local Natural Resource Curse." Policy Research Working Paper 6366 (2013), The World Bank. Print.

Davis, Graham A. "Mining, Oil, and Income Inequality." Unpublished Manuscript, Colorado School of Mines. Print.

## VI. Other Topics in Resources and Development

### Week 14 Sustainability: The Economic Point of View

Solow, Robert. "Intergenerational Equity and Exhaustible Resources." *Symposium on the Economics of Exhaustible Resources*. Spec. issue of *Review of Economic Studies* 41 (1974): 29-45. Print.

#### Solow Class Notes

Solow, Robert. "The Economics of Resources or the Resources of Economics." *American Economic Review* 64.2 (1974): 1-14. Print.

Solow, Robert. "On the Intergenerational Allocation of Natural Resources." *Scandinavian Journal of Economics* 88.1 (1986): 141-149. Print.

Hartwick, John M. "What Would Solow Say?" *Journal of Natural Resources Policy Research* 1.1 (2009): 91-96. Print.

van der Ploeg, Rick. "Guidelines for Exploiting Natural Resource Wealth." *Oxford Review of Economic Policy* 30.1 (2014): 145-169. Print.

Week 15 Expropriation of Mineral Assets: Theory and Empirics

Guriev, Sergei, Anton Kototilin, and Konstantin Sonin. "Determinants of Nationalization in the Oil Sector: A Theory and Evidence from Panel Data." *Journal of Law, Economics, and Organization* 27.2 (2009): 301-323. Print.

Hajzler, Christopher. "Expropriation of Foreign Direct Investments: Sectoral Patterns from 1993 to 2006." *Review of World Economics* 148 (2012): 119-149. Print.

Maybe a chapter out of Natural Resources Trap?