PED-309: Development Policy Strategy  
*Fall 2015*

**Syllabus**

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Faculty Assistant: Karen Vanderwillik  
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Meet Time: MW, 11:45-13:00PM in 1 Brattle, room 401

Section: Friday, 8:45-10:00AM in L-140

This is a capstone course that integrates a variety of analytical tools to assess the development challenges faced by countries. The course will develop the tools to diagnose growth constraints, structural transformation possibilities, macroeconomic imbalances, fiscal policy, labor market performance, the sources of inequality and volatility, and relate them to policy issues. The course will be applied in the sense that it starts from observations and explores how different theories make sense of the facts. Students will be required to make assessments of these aspects in specific countries all through the course.

**Prerequisites**

This course is designed for second year MPA/ID students. It builds on previous core courses, especially PED-101i, API-210i, API-119i and API-120i. Other students will require the consent of the instructor based on their previous exposure to growth theory, open economy macroeconomics and econometrics.

**Description**

As opposed to the typical academic setting in which theories are presented – normally one at a time - and some implications are derived, policymakers are presented with data and it is up to them to try to interpret it using alternative theories.

This course tries to bridge this gap between the deductive method that characterizes much of academia and the inductive approach, which is typical of the policy world. The course is divided into four sections. The first section discusses the various determinants of growth and introduces the growth diagnostic framework. The second evaluates in detail structural factors that influence growth; demographics, geography, inequality, structural transformation and institutions. The third section deals with the macro stance of the country. The challenge for the policymaker is to find a coherent diagnostic narrative that can make sense simultaneously of observations about growth,
macro balances and social outcomes. We will also assess fiscal problems, looking not only at how the fiscal situation affects the macro but also the underlying determinants of the fiscal stance, including debt dynamics, political economy and the budget processes. We will look into the causes and sources of macroeconomic volatility, identifying the more structural causes of a country’s instability. At every stage, the associated policy issues will be discussed and related to the challenges and trade-offs of institutional design. The final section concludes.

**Audience**

This course is designed for second year MPA/ID students. Other students with excellent backgrounds in graduate-level microeconomics, macroeconomics and quantitative methods, and Ph.D. students (in economics, public policy, and PEG) with substantive interests in development policy may also find it useful. The course is designed for people who will be involved in economic policymaking and analysis in developing countries or in international financial institutions and aid agencies. Persons planning a career in emerging market finance may also find it useful.

**Grading**

The final grade will be based on:
- 3 Individual problem sets (30%)
- 4 Group problem sets (40%)
- Final group diagnostic (30%)

Please note the following:
- The quality of class participation matters for the grade.
- Individual problem sets are usually devoted to performing specific tests and analyses. The output of these problem sets will be analytical inputs for the group problem sets. The individual problem sets (or sections within a problem set) will focus on developing analytical tools and learning to use STATA. The group problem sets focus on interpretation and decision making.
- There are four problem sets during the semester. There will also be a final group diagnostic as well as a smaller group presentation in section during the semester. These exercises are meant to facilitate students’ transition from analytical tools to coherent policy relevant inference.

**Reading Material**

The course does not have a main textbook. It is based mostly on a collection of papers. Papers and materials will be available online and put on reserve.

**How is this course different from your first year?**

- It is more applied. It is based on analysis that can be carried out in practice
- It will develop methods to diagnose and prioritise
- It will allow students to apply the theory learned in the first year
- It will give students a framework to assess market and government failures in practice
- Sections are additional lectures given by the teaching assistant, not reviews of the lectures. They will generally build on the material in class and help students to apply it to real world policies.
How have we streamlined the course?

- Different (better?) order of lectures
- More continuous work, less stressful peaks before big problem sets
- Short problem sets where we help you "step by step" to develop the basic "tests" for each part of the diagnostics. Later, you will use that information for the group problem sets.
- Group meetings will be more about diagnostics than about new calculations.
- Each group will give a brief presentation on an aspect of its country’s economy during section at some point during the semester.

## SCHEDULE

<table>
<thead>
<tr>
<th>#</th>
<th>Day</th>
<th>Description</th>
<th>Problem Sets</th>
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<tbody>
<tr>
<td>1</td>
<td>2-Sep</td>
<td>Introduction</td>
<td></td>
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<tr>
<td>2</td>
<td>4-Sep</td>
<td>A Diagnostic Framework</td>
<td>PS1 Posted</td>
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<tr>
<td>3</td>
<td>9-Sep</td>
<td>Long run trends and demographics</td>
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<td>4</td>
<td>14-Sep</td>
<td>Hypothesis testing in practice: returns to schooling and skills</td>
<td>PS1 Due PS2 Posted</td>
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<tr>
<td>5</td>
<td>16-Sep</td>
<td>Case study</td>
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<tr>
<td>6</td>
<td>21-Sep</td>
<td>Macro diagnostics: National Accounts</td>
<td>PS3 Posted PS2 Due</td>
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<tr>
<td>7</td>
<td>23-Sep</td>
<td>BBNN I</td>
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<td>8</td>
<td>28-Sep</td>
<td>BBNN II</td>
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<td>9</td>
<td>30-Sep</td>
<td>Volatility I</td>
<td></td>
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<td>10</td>
<td>5-Oct</td>
<td>Volatility II</td>
<td>PS3 Due PS4 Posted</td>
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<tr>
<td>11</td>
<td>7-Oct</td>
<td>Fiscal Policy 1</td>
<td></td>
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<td>12</td>
<td>12-Oct</td>
<td>[ No lecture ]</td>
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<td>13</td>
<td>14-Oct</td>
<td>Fiscal policy 2 - Budget</td>
<td>PS5 Posted PS4 Due</td>
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<td>14</td>
<td>19-Oct</td>
<td>What slows down technology diffusion? The tacit knowledge hypothesis</td>
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<td>15</td>
<td>21-Oct</td>
<td>The measurement of knowhow</td>
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<td>16</td>
<td>26-Oct</td>
<td>The growth of knowhow: Spaces and diversification</td>
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<td>17</td>
<td>28-Oct</td>
<td>The diffusion of knowhow</td>
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<tr>
<td>18</td>
<td>2-Nov</td>
<td>Urbanization and knowhow</td>
<td>PS5 Due P6 Posted</td>
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<td>19</td>
<td>4-Nov</td>
<td>Revisiting the state and public policy</td>
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<td>20</td>
<td>9-Nov</td>
<td>Productive Development Policies</td>
<td>PS5 Due PS6 Due PS7 Posted</td>
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<td>21</td>
<td>11-Nov</td>
<td>[ No lecture ]</td>
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<tr>
<td>22</td>
<td>16-Nov</td>
<td>Inequality and exclusion</td>
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<td>23</td>
<td>18-Nov</td>
<td>The informal economy and the labor market</td>
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<td>24</td>
<td>23-Nov</td>
<td>Syndromes as equilibria</td>
<td>PS7 Due</td>
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<td>25</td>
<td>25-Nov</td>
<td>[ No lecture ]</td>
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<td>26</td>
<td>30-Nov</td>
<td>From diagnostics to therapeutics</td>
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<tr>
<td>27</td>
<td>2-Dec</td>
<td>The Policymaker’s worldview</td>
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08/03/2015
LECTURES, REVIEWS AND READINGS

Lecture #1  Introduction

- *Hausmann Notes (available on course website)

Lecture #2  A diagnostic framework: four principles

- Hausmann Ricardo, Klinger Bailey, Wagner Rodrigo 2008 " Doing Growth Diagnostics in Practice: A 'Mindbook'"  *CID Working Papers Series* No. 177

Lecture #3  Growth Diagnostics I: Long run trends & Demographics


Lecture #4  Hypothesis testing in practice: returns to schooling and skills

- *Hausmann Ricardo, Klinger Bailey, Wagner Rodrigo 2008 " Doing Growth Diagnostics in Practice: A 'Mindbook'"  *CID Working Papers Series* No. 177
be found at:  
http://frrodriguez.web.wesleyan.edu/docs/academic_english/comments_hausmann_rodrik.pdf


Lecture # 5  Growth Diagnostics III: A case study

- Hausmann, Ricardo “In Search of the Chains that Hold Brazil Back” prepared for the Brazil Center for Public Leadership. (Available on course website.)

Lecture # 6  Macro Diagnostics: Inflation, Crises and National Accounts


Lecture # 7  Macro Diagnostics: BBNN I


Lecture # 8  Macro Diagnostics: BBNN II


Lecture # 9  Volatility I
Lecture # 10  Volatility II


Lecture # 11  Fiscal policy I


Lecture # 12  Fiscal policy II


08/03/2015
Hausmann, 1998. Fiscal Institutions for decentralising democracies: which way to go? In Fukasaku and Hausmann (Eds) Democracy, Decentralization and deficits in Latin America. OECD


Lecture # 13  What slows down technology diffusion? The tacit knowledge hypothesis

*The nature of tacit knowledge: Polanyi, Michael. The tacit dimension. Anchor Garden City, NY (1967); Chapter 1


Lecture # 14  The Measurement of Knowhow


Lecture # 15 The growth of knowhow: Spaces and diversification


Lecture # 16  The Diffusion of Knowhow

• *Hausmann H, Neffke F. 2015. The workforce of pioneer plants. Mimeo
• *Hausmann Ricardo, “Target of Opportunity: South Africa’s Western Cape Seeks a Role in the African Oil Boom” (available on course website)

Lecture # 17  Urbanization and Knowhow: Cities, growth & sustainability


• Division of labor, efficiency versus economic growth: Jacobs, J. (1969). The economy of cities. The economy of cities, Chapters 1&2


Lecture # 18  Revisiting the state and public policy


• Engerman and Sokoloff, “Institutional and Non-Institutional Explanations of Economic Differences”


Lecture # 19  Productive Development Institutions

Lecture # 20  Inequality and Exclusion


Lecture # 21  The informal economy and the labor market

08/03/2015
*Blanchard, O. and Katz, L. (1997) "What we Know and Do Not Know About the Natural Rate of Unemployment" *Journal of Economic Perspectives* - Vol.11 Number 1.


Agenor, P.R. , " The Labor Market and Economic Adjustment” International Monetary Fund Staff Papers v43, n2 (June 1996): 261-335


Peter Khun (1998) "Unions and the Economy: What we Know; What we should Know" Canadian Journal of Economics. Vol. 31 no.5 November


Lecture # 22  Syndromes as Equilibria

Lecture # 23  From diagnostics to therapeutics


Lecture # 24  The Policymaker’s World View