

## Course Book

# Growth, Inequality and Poverty

Winter Term 2013/14

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[\(\[www.wiwi-uni-passau.de/grimm.html\]\(http://www.wiwi-uni-passau.de/grimm.html\)\)](http://www.wiwi-uni-passau.de/grimm.html)

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### **Chapter 1: General information**

#### **1.1 Course contents**

Economic growth has led to substantial reductions in poverty in South-East Asia and more recently in China, India and Brazil. Some economists forecast similar reductions to come in large parts of Sub-Saharan Africa. However, in many economies, including China, growth and poverty reduction are accompanied by a significant increase in inequality. This course discusses the statistical tools to investigate these dynamics and the underlying policies and external factors causing these changes. The course starts with a presentation of the theoretical foundations of the mainstream welfare measures and discusses the advantages and disadvantages of alternative approaches including the concept of happiness. In this context the course will also critically assess the poverty estimates produced by the World Bank in particular regarding the methods used to calculate purchasing power parities necessary to apply a uniform poverty line across countries. The second block starts with the arithmetics linking growth, inequality and poverty, the effects of growth on inequality and the concept of pro-poor growth. This block concludes with the inverse relationship, i.e. the effects of inequality and growth. Competing hypotheses are discussed and empirically validated. The last part of the course presents a set of case studies that deal with particular shocks and policy domains mostly in specific country contexts, such as the effects of social protection programs in Latin America or agricultural and employment-based strategies of development in Indonesia.

## Overview of topics and sessions:

1. Introduction
2. Measurement issues (4 sessions)
  - a. The welfarist approach: theoretical foundations
  - b. Comparisons based on mean income
  - c. Measures of inequality and poverty
  - d. The World Bank's poverty estimates
  - e. Alternative approaches to the measurement of a nation's welfare
    - i. Sen's Capability Approach
    - ii. Human Development Index and extensions
    - iii. The concept of Happiness
3. The Growth-Inequality-Poverty-nexus (5 Sessions)
  - a. A mathematical identity
  - b. The effect of growth on inequality: Kuznets and beyond
  - c. The effect of inequality on growth: efficient and inefficient redistribution: Theoretical approaches and empirical evidence
  - d. The concept of pro-poor growth
4. Shocks, Policies and Poverty (4 Sessions)
  - a. Trade liberalization and poverty
  - b. Social protection in Latin America: achievements and limitations
  - c. Indonesia: A showcase of pro-poor growth?
  - d. Is poverty declining in Sub-Saharan Africa?

### 1.2 Aims of the course

- To provide participants with the theoretical foundations of commonly used welfare measures.
- To introduce participants to alternative welfare measures and approaches.
- To equip participants with the techniques necessary to analyse statistically growth, poverty and inequality dynamics.
- To introduce participants in the most important theories explaining the link between growth and inequality.
- To lead participants through various case studies that illustrate how specific policies and external factors can affect growth, poverty and inequality.

### 1.3 Prior knowledge

An understanding of intermediate micro and macro-economics and basic quantitative analysis is required. Prior knowledge in development economics is an advantage. Students without any prior knowledge in development economics may read the books by either Ray (1998) or Todaro and Smith (2006) (see below).

### 1.4 Credits and workload

Course credits: 5 ECTS-LP.

	<b>Contact hours</b>	<b>Self-study</b>
Lecture	28 h	48 h
Tutorial	24 h	24 h
(Preparation) final exam	2 h	24 h
Total	150 h	

### 1.5 Inscription and contact

Inscriptions via StudIP.

For questions related to the administration of this course, please contact:

Christiana Augsburg  
Chair of Development Economics, Secretary  
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For questions related to the content of this course, please contact:

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## **Chapter 2: Course Set-up**

### **2.1 Organization**

This lecture is organized in a set of lectures and tutorials (Übungen). Students are explicitly invited to actively participate in the lecture through questions and input for discussion. In the tutorial students solve set problems in relation to the lecture. In addition students are invited to indicate those parts of the course for which they need additional training. This may refer to a particular concept, an empirical method or a certain debate in development politics. Readings are essential to prepare the class and the exam.

### **2.2 Scheduling**

Start lecture: 14 October 2013, Room: SR 212 NK

End lecture: 3 February 2014

Start tutorial: 22 October 2013, HS3 (Phil)

End tutorial: 4 February 2014

Exam: At the end of the term (exact date to be announced)

### **2.3 Grade components**

Final written exam, 2 hours (100%).

### **2.4 General background readings**

Grimm M., A. McKay and S. Klasen (2007), *Determinants of Pro-Poor Growth: Analytical Issues and Findings from Country Cases*. London: Palgrave-Macmillan.

Haughton, J. and S. R. Khandker (2009), *Handbook on Poverty and Inequality*. World Bank, Washington D.C.

Ray D. (1998), *Development Economics*. Princeton University Press: Princeton.

Shorrocks, A.F. and R. van der Hoeven (Eds.), *Growth, Inequality and Poverty. Prospects for Pro-Poor Economic Development* (pp. 197-221), Oxford: Oxford University Press.

Todaro, M.P. and S.C. Smith (2006), *Economic Development*. 9<sup>th</sup> edition (or newer), Pearson: Essex.

World Bank (2006), *World Development Report: Equity and Development*. World Bank, Washington D.C.

### **2.5 Course material**

- Readings
- Presentation Slides (script)
- Set problems (tutorial/Übung)

## Chapter 3: Session details

1. Introduction
2. Measurement issues (4 sessions)
  - a. The welfarist approach: theoretical foundations
  - b. Comparisons based on mean income
  - c. Measures of inequality and poverty
  - d. The World Bank's poverty estimates
  - e. Alternative approaches to the measurement of a nation's welfare
    - i. Sen's Capability Approach
    - ii. Human Development Index
    - iii. The concept of Happiness

### References (it will be indicated what is required and what is optional)

- Stiglitz, J., A. Sen and J.-P. Fitoussi (2009), Report of the Commission on the Measurement of Economic Performance and Social Progress. (read the executive summary, pages 11-18 of the report). [<http://www.stiglitz-sen-fitoussi.fr/en/index.htm>]
  - An overview of poverty and inequality measures can be found here: <http://go.worldbank.org/OC60K5UK40>
  - Chen, S. and M. Ravallion (2008), The developing world is poorer than we thought, but no less successful in the fight against poverty. World Bank Policy Research Working Paper # WPS 4703, World Bank, Washington D.C. [[http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000158349\\_20100121133109&cid=decresearch](http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000158349_20100121133109&cid=decresearch)]
  - United Nations Development Program (UNDP) (2011), Human Development Report 2011. Sustainability and Equity: A Better Future for All (Technical Notes). UNDP, New York. [[http://hdr.undp.org/en/media/HDR\\_2011\\_EN\\_TechNotes.pdf](http://hdr.undp.org/en/media/HDR_2011_EN_TechNotes.pdf)]
  - Kahneman, D. and A.B. Krueger (2006). Developments in the Measurement of Subjective Well-Being. *Journal of Economic Perspectives*, 20 (1): 3-24.
3. The Growth-Inequality-Poverty-nexus (5 Sessions)
    - a. A mathematical identity
    - b. The effect of growth on inequality: Kuznets and beyond
    - c. The effect of inequality on growth: efficient and inefficient redistribution: Theoretical approaches and empirical evidence
    - d. The concept of pro-poor growth

#### References (it will be indicated what is required and what is optional)

- Bourguignon, F. (2003), The growth elasticity of poverty reduction: explaining heterogeneity across countries and time periods. In T. Eicher and S. Turnovsky, Growth and Inequality, Boston: MIT Press. [[http://siteresources.worldbank.org/INTPGI/Resources/342674-1206111890151/13565\\_32322\\_growth\\_elasticity.pdf](http://siteresources.worldbank.org/INTPGI/Resources/342674-1206111890151/13565_32322_growth_elasticity.pdf)]
- Kuznets, S. (1955), Economic Growth and Income Inequality. American Economic Review 45: 1-28.
- Deininger, K. and L. Squire (1998), New Ways of Looking at Old Issues. Journal of Development Economics, 57: 259-287.
- Alesina, A. and D. Rodrik (1994), Distributive Politics and Economic Growth. Quarterly Journal of Economics, 109: 465-90.
- Forbes, K.J. (2000), A reassessment of the relationship between inequality and growth. American Economic Review, 90 (4): 869-887.
- McKay, A. (2007), Introduction to Methods for Analyzing the Distributional Pattern of Growth. In M. Grimm, A. McKay and S. Klasen (Eds.), Determinants of Pro-Poor Growth: Analytical Issues and Findings from Country Cases, London: Palgrave-Macmillan.
- Grimm, M., C. Wetta and A. Nikiema (2013) Shipping around the Malthusian trap. GAPP Project. WIDER, United Nations University, Helsinki.
- Günther, I. and M. Grimm (2007), Measuring pro-poor growth when relative prices shift, Journal of Development Economics, 82 (1): 245-256.

#### 4. Shocks, Policies and Poverty (4 Sessions)

- a. Trade liberalization and poverty
- b. Social protection in Latin America: achievements and limitations
- c. Indonesia: A showcase of pro-poor growth?
- d. Is poverty declining in Sub-Saharan Africa?

#### References (it will be indicated what is required and what is optional)

- Winters, L.A., N. McCulloch and A. McKay (2004), Trade Liberalization and Poverty. The evidence so far. Journal of Economic Literature, 42: 72-115.
- Ferreira, F.H.G. and D. Robalino (2010), Social protection in Latin America: achievements and limitations. World Bank Policy Research Working Paper 5305, The World Bank, Washington D.C. [[http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2010/05/10/000158349\\_20100510134942/Rendered/PDF/WPS5305.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2010/05/10/000158349_20100510134942/Rendered/PDF/WPS5305.pdf)]

- Timmer, C.P. (2007), A Historical Perspective on Pro-Poor Growth in Indonesia. In M. Grimm, S. Klasen and A. McKay, Determinants of Pro-Poor Growth. Analytical Issues and Findings from Country Cases, Palgrave Macmillan: London
- Pinkovskiy, M. and X. Sala-i-Martin (2010), African Poverty is Falling...Much Faster than You Think! Mimeo, Columbia University [[http://www.columbia.edu/~xs23/papers/pdfs/Africa\\_Paper\\_VX3.2.pdf](http://www.columbia.edu/~xs23/papers/pdfs/Africa_Paper_VX3.2.pdf)]
- Young, A. (2012), The African Growth Miracle. Journal of Political Economy, 120 (4): 696-739. [<http://www.econ.yale.edu/seminars/develop/tdw09/young-090924.pdf>]