



Economic Growth and Development Syllabus and Outline

Economic Growth and Development (8311)

Fall 2006, Mini 2

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Office Hours: By appointment (just send me an email)

Class Meetings: Tuesday, Thursday 12.30-2.00, Heller 1275

Course Description

Usually a development class is about understanding why or why not a country's income grows and what are the consequences of growth or lack of thereof on variables of interests. The microeconomic foundations of these issues clearly lies in understanding individuals or households growth and its consequences.

We will start by looking at some facts regarding individual and country income evolution and dispersion, income risk, and possibly the evolution and the dispersion of individual and country consumption and wealth. You will get your hands dirty.

We will then start analyzing a workhorse theoretical set-up in which heterogenous agents (or countries) which face exogenous or endogenous income fluctuations and respond optimally to these fluctuations. In this section I will go in details over few classic and more recent papers. I will devote quite a bit of time explaining how to bring these models to the data. We will also discuss the importance (for welfare) of determining the drivers of income risk and dispersion.

The final part of the course will be devoted to the specialization of the general set-up to a particular development issue, naming the patterns of business cycles in emerging economies. We will explore the role of financial frictions (including limited enforcement) and of super-persistent shocks.

Prerequisites

First year PhD sequence in micro and macro

Coursework and Evaluation

Your grade will be based on the following:

Class Attendance Participation (Required)	30%
Homeworks (Group)	40%
Research Project (Individual)	30%

The research project should be a 5 to 10 pages detailed outline of a potential research paper. It should clearly state the issue you are after and the steps you intend to take to address it.

Outline

Facts about distributions of Income, Consumption and Wealth

Readings: Diaz-Gimenez, Quadrini, and Rios-Rull (1997), Budria-Rodriguez, Diaz-Gimenez, Quadrini, and Rios-Rull (2002), Krueger and Perri (2006), Piketty and Saez (2003), Deaton and Paxson (1994), Autor, Katz, and Kearney (2006)

A model with exogenous income fluctuations

Readings: Aiyagari (1994) (See also <http://minneapolisfed.org/research/WP/WP502.pdf>)
Ljungqvist and Sargent (2000) Chapters 16 and 17

Endogenizing income fluctuations

Readings: Guvenen (2006), Huggett, Ventura, and Yaron (2006), Heathcote, Storesletten, and Violante (2006)

Business Cycles in Developing Economies

Readings: Neumeyer and Perri (2006), Aguiar and Gopinath (2005)

References

- AGUIAR, M., AND G. GOPINATH (2005): “Emerging Market Business Cycles: The Cycle is the Trend,” Harvard.
- AIYAGARI, R. (1994): “Uninsured Idiosyncratic Risk and Aggregate Saving,” *The Quarterly Journal of Economics*, 109(3), 659–684.
- AUTOR, D., L. KATZ, AND M. KEARNEY (2006): “Trends in U.S. Wage Inequality: Re-Assessing the Revisionists,” MIT.
- BUDRIA-RODRIGUEZ, S., J. DIAZ-GIMENEZ, V. QUADRINI, AND J.-V. RIOS-RULL (2002): “Updated Facts on the U.S. Distributions of Earnings, Income, and Wealth,” *Federal Reserve Bank of Minneapolis Quarterly Review*, 26(3), 2–35.
- DEATON, A., AND C. PAXSON (1994): “Intertemporal Choice and Inequality,” *Journal of Political Economy*, 102(3), 437–67.
- DIAZ-GIMENEZ, J., V. QUADRINI, AND J.-V. RIOS-RULL (1997): “Dimensions of Inequality: Facts on the U.S. Distributions of Earnings, Income, and Wealth,” *Federal Reserve Bank of Minneapolis Quarterly Review*, 21(2), 3–21.
- GUVENEN, F. (2006): “Learning Your Earning: Are Labor Income Shocks Really Very Persistent?,” *American Economic Review*, p. Forthcoming.
- HEATHCOTE, J., K. STORESLETTEN, AND G. VIOLANTE (2006): “Insurance and Opportunities: The Welfare Implications of Rising Wage Dispersion,” Georgetown.
- HUGGETT, M., G. VENTURA, AND A. YARON (2006): “Sources of Lifetime Inequality,” Georgetown.
- KRUEGER, D., AND F. PERRI (2006): “Does Income Inequality lead to Consumption inequality? Evidence and theory,” *Review of Economic Studies*, 73(1), 163–193.
- LJUNGQVIST, L., AND T. J. SARGENT (2000): *Recursive Macroeconomic Theory*. MIT Press, Cambridge, MA.
- NEUMEYER, P. A., AND F. PERRI (2006): “Business cycles in emerging economies: the role of interest rates,” *Journal of Monetary Economics*, 52(1), 345–380.
- PIKETTY, T., AND E. SAEZ (2003): “Income Inequality in the United States, 1913–1998,” *Quarterly Journal of Economics*, 98(1), 1–39.