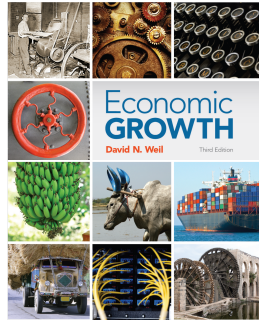


FUNDAMENTALS



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Syllabus

Economic Growth D. Weil

PART I: OVERVIEW

Chapter 1: The Facts to be Explained

Chapter 2: A Framework for Analysis

PART II: FACTOR ACCUMULATION

Chapter 3: Physical Capital

Chapter 4: Population and Economic Growth

Chapter 6: Human Capital

PART III: PRODUCTIVITY

• Chapter 7: Measuring Productivity

• Chapter 8: The Role of Technology in Growth

PART IV: FUNDAMENTALS

• Chapter 12: Government

• Chapter 14: Culture

• Chapter 15: Geography, Climate, and Natural Resources

PART V: CONCLUSION

• Chapter 17: What We Have Learned and Where We are Headed

No appendices

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Exam – fac simile

The written exam consists of three open questions (closed books) on the topics taught in the course. Students choose to answer just two out of three. :

1. Explain the role of human capital in economic growth
2. What are main determinants of income differences
3. Explain the importance of fundamentals in the process of economic dynamics and provide some detail on one of these determinants.
4. Explain the role of technological change in economic growth
5. Explain the importance of fundamentals in the process of economic dynamics and provide some detail on the role of the government and institutions

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Country report

3/5 pages, cover included, if any
One page devoted to a statistical overview of the socio-economic background

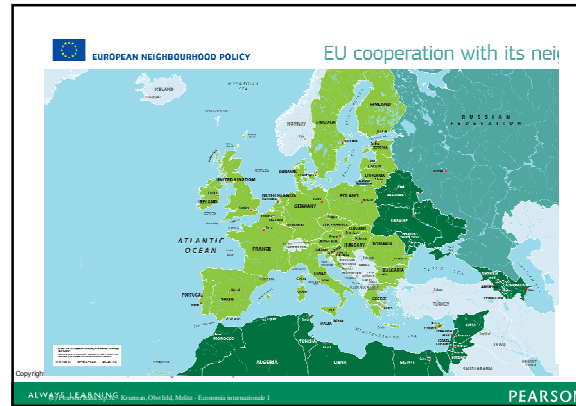
Eligible countries

- EU28
- Enlargement candidates
[Albania](#), [Bosnia and Herzegovina](#), [the former Yugoslav Republic of Macedonia](#), [Iceland](#), [Kosovo*](#), [Montenegro](#), [Serbia](#), [Turkey](#)
- European Neighbouring countries
[Algeria](#), [Armenia](#), [Azerbaijan](#), [Belarus](#), [Egypt](#), [Georgia](#), [Israel](#), [Jordan](#), [Lebanon](#), [Libya](#), [Moldova](#), [Morocco](#), [Palestine](#), [Syria](#), [Tunisia](#), [Ukraine](#)

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Cases

Report on a EU country for an extra EU multinationals

Report on a candidate country for a government body of a EU country

Report on a EN country for an ONG based in EU

Report on either a candidate or a EN country for EU institutions (a DG for example)

Others?

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Report delivery

Report: pdf file via mail to stefanousai@unica.it

File name: surname_name.pdf

Mail subject: country report

Mail text: specification of the case (see above)

deadline: beginning of January

Presentations: second week of January

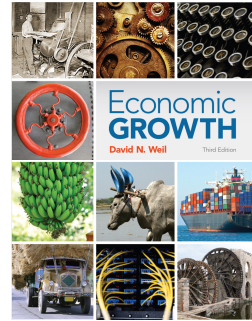
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Chapter 12

GOVERNMENT



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Asia at night



Government intervention in the economy

Public goods

Externalities

Monopolies and other imperfect markets

Coordination failures

Infant industry (bad and good examples)

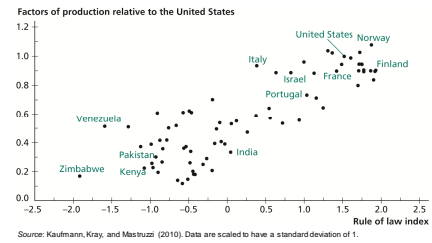
Equity-efficiency trade off

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Figure 12.1 Rule of Law and Factor Accumulation, 2009

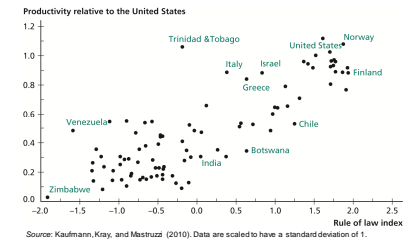


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Figure 12.2 Rule of Law and Productivity

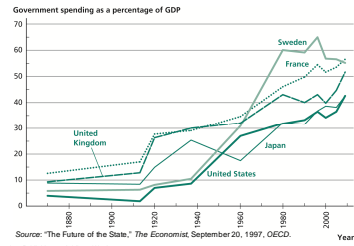


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Figure 12.3 Growth of Government Spending, 1870–2009



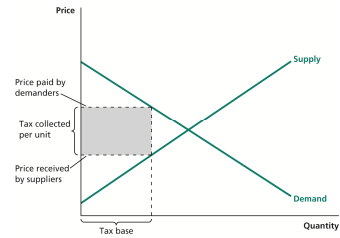
Source: "The Future of the State," *The Economist*, September 20, 1997, OECD.

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Figure 12.4 Effect of a Tax

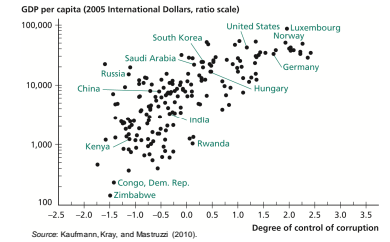


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Figure 12.5 Government Corruption versus GDP per Capita, 2009



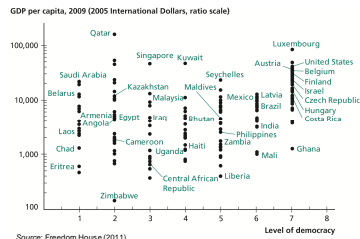
Source: Kaufmann, Kraay, and Mastruzzi (2010).

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Figure 12.6 Democracy and GDP per Capita



Source: Freedom House (2011).

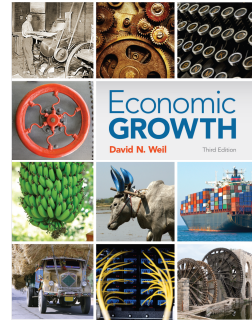
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Chapter 14

CULTURE



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Culture on economic growth

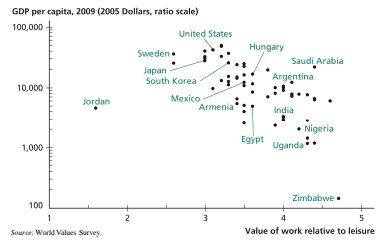
- Openness to new ideas
- Hard work
- Savings
- Trust
- Social capital
- Social capabilities

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Figure 14.1 Value of Work versus GDP per Capita



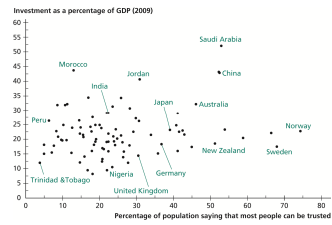
Source: World Values Survey.
 *Scored on a 5-point scale where 1 indicates higher value on leisure, and 5 indicates higher value on work.

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Figure 14.2 Relationship between Trust and Investment



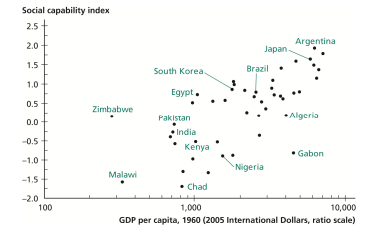
Source: World Values Survey, Waves III, IV, and V; Heston et al. (2011).

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Figure 14.3 Social Capability versus GDP per Capita in 1960



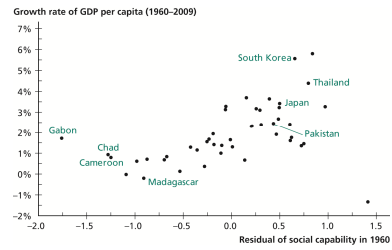
Source: Temple and Johnson (1998); Heston, Summers, and Aten (2011).

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Figure 14.4 Social Capability and Economic Growth

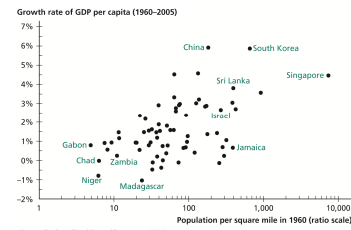


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Figure 14.6 Population Density versus Economic Growth



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History matters

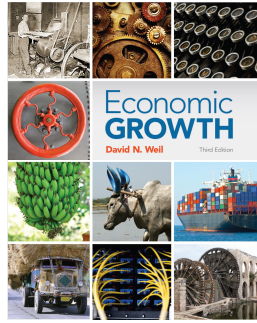


- Qwerty case
- Accidents or other random events may put the economy in an unefficient path (lock-in)
- Think about apple vs ms-dos

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Chapter 15

**GEOGRAPHY,
CLIMATE,
AND NATURAL
RESOURCES**

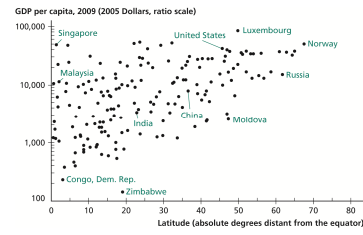


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Figure 15.1 Relationship between Latitude and Income per Capita



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Location, trade and growth

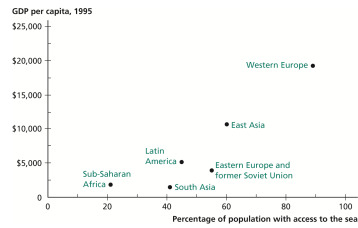
- Openness to trade depends on geography: think about landlocked countries
- Proximity to the sea or to a river may be a crucial factor in explaining income differences
- Proximity to major centers of economic activities can also be crucially important

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Figure 15.2 Regional Variation in Income and Access to the Sea



Source: Gallup, Sachs, and Mellinger (1999).

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Geographic concentration and spillovers

- Role of spatial spillovers... and local increasing returns
- Nature shows a tendency to decreasing returns, man ...shows a tendency to increasing returns...knowledge is our most powerful engine of production and it enables us to subdue nature and satisfy our wants

–*Alfred Marshall*

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Guns, germs and geography

- Europe and Asia had several key advantages over the world that allowed it eventually to dominate
 - Numerous species of plants and animals to be domesticated
 - Orientation east-west for the development of common agricultural techniques
 - Endemic diseases in large dense population
- Production of surplus to devote to other actions other than getting food and survive...

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Geography's effect on government

- Size of the country depends on geography
- Centralisation of powers can affect growth but with ambiguous effects

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History matters

- Qwerty case
- Accidents or other random events may put the economy in an unefficient path (lock-in)
 - Think about apple vs ms-dos in the nineties
 - Other cases?
- Importance of optimism/faith/trust

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Clusters at night in Europe



To cluster or not to cluster?

a.k.a: external economies; cluster economies

Agglomeration Economies: lower production costs attract clusters

Agglomeration Diseconomies: very large clusters repel economic activity

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Types of Agglomeration Economies

Localization Economies decrease the cost of production for every firm *in a specific industry*.

Urbanization Economies decrease the cost of production for every firm that locates in a particular city *regardless of industry*.

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Benefits of clusters

Clusters may increase product demand, allowing firms to benefit from internal economies of scale.

Marshallian externalities from clusters:

Pools of specialized labor
Specialized firms
Technological spillovers

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Localization Economies

Pools of specialized labor

Easy to recruit skilled labor
Specialized training exists
Formal/informal communication

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Localization Economies

Specialized resources

Backward linkages (upstream products) (supplier of inputs)
Forward linkages (downstream products) (buyer of output)
Face to face communication
Producer services (outsourcing)
Capital markets/bankers understand that industry

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Localization Economies

Technological spillovers (technological externalities)

Stimulate innovation
Often created from poached labor from local competitors

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Urbanization Economies

Advantages connected with the size of an urban area regardless of industry.

Specialized labor:

Law of large numbers: lower unemployment rate if workers are willing and able to change industries.
More special services than in rural areas.

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Urbanization Economies

Specialized resources

Urban vs Rural Infrastructure
Large city projects less risky to finance

Technological spillovers

Novelty by combination from great variety of goods in a city.

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Other local externalities

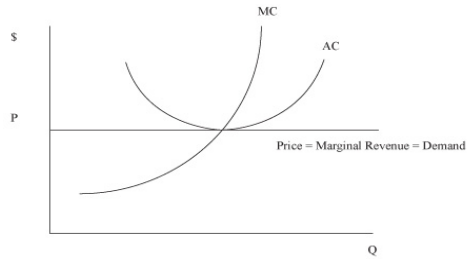
- **Social capital**
- **Public capital**
 - basic infrastructure
 - low bureaucracy
- **Amenities**
- **Public 'social' capital**

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Perfectly competitive firm in long-run equilibrium

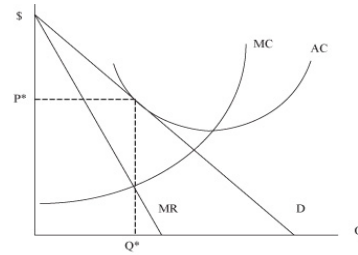


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Imperfect competitor with normal profit



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Tiscali as a case study

Why in Cagliari?

Why in Sardinia?

Why in Italy?

Was it an accident? or is it the result of a specific strategy?

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Climate and agricultural productivity

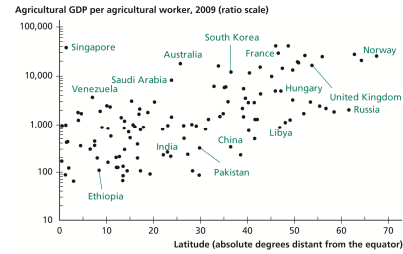
- Measures of agricultural output per worker differ greatly between tropical and temperate regions
- This does not imply that tropics are bad for agriculture
- Importance of ceteris paribus scenarios

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Figure 15.5 Latitude versus Agricultural GDP per Agricultural Worker



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Climate and disease

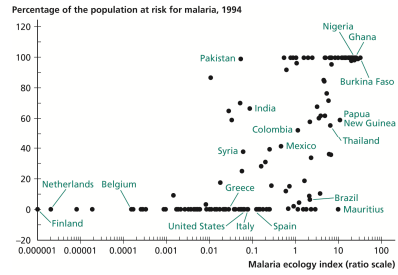
- There is good evidence that the tropics may constitute a bad health environment
- Malaria, among several diseases, has the largest effect on economic growth

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Figure 15.6 Malaria Ecology versus Incidence of Malaria



Source: Kiszewski et al. (2004).

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Natural resources

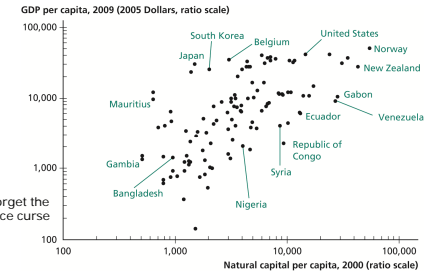
- Natural resources and growth
- Resource curse
 - Overconsumption
 - Dynamics of industrialisation: dutch disease
 - Politics: nigeria vs arabic gulf countries
- The case of coal in early industrial development
 - Western Europe: iron and steam engines
 - China: bad location of mines and no need for mechanised energy (no tech-push)

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Figure 15.7 Natural Capital versus GDP per Capita



But let us not forget the so called resource curse

Source: World Bank (2006), Heston, Summers, and Aten (2011).

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