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ESSENTIALS OF DEVELOPMENT ECONOMICS



# Essentials of Development Economics

Second Edition

J. Edward Taylor and  
Travis J. Lybbert



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*To Peri, Sebastian, and Julian*

• • •

*To Heather, Hannah, and Rockwell*

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# Preface

The RebelText alternative textbook project was launched at the Taylor dinner table one night in fall 2012. Ed had just told the campus bookstore to order up 125 copies of an undergraduate econometrics textbook at \$150 a shot. (That's a gross of \$18,750 just from one class.) Over dinner that night, Ed's twenty-year-old son, Sebastian, announced that he had spent \$180 (of his parents' money) on a new edition calculus text required for his course. Sebastian's little brother, Julian, exclaimed, "That's obscene!" Sebastian responded, "You're right. Basic calculus hasn't changed in decades. You don't need new editions to learn calculus."

Before dinner was over, Ed's two kids had ambushed him and made him promise never, ever, to assign an expensive textbook to his students again.

"So, what do you want me to do then, write one?" Ed asked them.

"Exactly," they answered in unison.

"And get a good title for it," Ed's wife, Peri, added.

The first RebelText creation was *Essentials of Econometrics*, with Aaron Smith and Abbie Turiansky. That seemed like a big enough project, but then Ed was assigned to teach a 350-student undergraduate development economics course. Naturally, he felt he had to write a book for that one, too. Travis climbed on board. That's how *Essentials of Development Economics* became the second member of the RebelText line.



What's RebelText? It's a textbook series designed to be affordable, compact, and concisely written for a new generation that is more at ease "Googling" than wading through big textbooks. Being both more affordable and compact, it's easier to carry around. Write in it. Don't worry about keeping the pages clean or whether there will be a market for your edition later, because at this price there's no need to resell it after the class is through. RebelText will naturally evolve as needed to keep pace with the field, but there will never, ever, be a new edition just for profits' sake.

In 2014, RebelText and UC Press struck an alliance. This UC Press edition offers readers a more complete coverage of what we see as the essentials of development economics than the original print-on-demand edition, while keeping the book affordable and compact. Through our new partnership with UC Press, we hope to turn RebelText into a better and higher impact alternative textbook initiative in a world that we all believe is in desperate need of textbook reform.

There is particularly a need for a new undergraduate development economics textbook. The books out there seem more interested in summarizing a bunch of topics than in teaching people what they really need to know in order to do development economics. This book is different.

## **WHO SHOULD USE THIS BOOK AND HOW**

When we sat down to write *Essentials of Development Economics*, we wanted a compact book for an upper-division undergraduate development economics class. That is primarily what this is. The knowledge in this book should poise any undergraduate to engage in further study or to venture out into the real world with an appreciation for the essential concepts and tools of economic development. More than a textbook, this can be a helpful basic reference for any graduate student, researcher, or development practitioner.

There's a striking disconnect between development textbooks and journal articles. Specialized journal articles really are what shape the way we think about development economics problems and research. Sadly, they are not written for undergraduate courses. Nevertheless, the topics they cover, research approaches they use, and critical findings they present are essential to understanding development economics, and they *can* be made accessible. Journal article synopses are highlighted in sidebars throughout this book.

RebelText is intended to be used interactively with online content. QR (Quick Reference) codes at the end of each chapter link readers with online materials, including images, animations, video clips, and interviews with some influential development economists. You can access all of the URLs behind the QR codes on the website [rebeltext.org](http://rebeltext.org), or by clicking on links in the e-version of this book. We encourage you to explore the multimedia material as a way to make the concepts come to life. On the website you'll also find the data sets included in this book, homework problems, study questions, and supplementary appendixes. When we use RebelText, the website becomes a center of class activity.

RebelText was created to make learning and teaching as efficient as possible. Students need to learn the essentials of the subject. They do not want to wade through thick textbooks in order to locate what they need, constantly wondering what will and won't be on the next test. Because it is concise, there is no reason *not* to read and study every word of *Essentials of Development Economics*. All of it could be on the test. Master it, and you will be conversant enough to strike up a conversation with any development economist and may even be able to get directly involved with development economics projects. You can think of this book as presenting the "best practices" and state-of-the-art methods for doing development economics. By mastering it, you'll also have the conceptual and intuitive grounding you need in order to move on to higher level development economics courses. You'll probably find yourself referring back to it from time to time, so keep it on your shelf!

If you are teaching or learning with RebelText, consider contributing your ideas about novel uses of the book and website, interesting data sets, programs, and projects. To find out how, visit [rebeltext.org](http://rebeltext.org) and click on "contributing to RebelText." Some of our best links have come from our students!

## ABOUT THE AUTHORS

Ed loves teaching economics, especially microeconomics, econometrics, and economic development. He's been doing it for about twenty-five years now at UC Davis, where he is a professor in the Department of Agricultural and Resource Economics. He's also done a lot of economics research; he has published more than one hundred articles, book chapters, and books on topics ranging from international trade reforms to ecotourism, immigration, and rural poverty. He's in *Who's Who in*

*Economics*, the list of the world's most cited economists, and he has been editor of the *American Journal of Agricultural Economics*. He has worked on projects with the United Nations, the World Bank, the Organization for Economic Cooperation and Development, and the Inter-American Development Bank, as well as with foreign governments, including those of Mexico, Honduras, Canada, and China. His new book, *Beyond Experiments in Development Economics: Local Economy-Wide Impact Evaluation* (Oxford University Press, 2014), presents a new approach to doing impact evaluation and cost-benefit analysis. You can learn more about Ed at his website: [jetaylor.ucdavis.edu](http://jetaylor.ucdavis.edu).

Travis Lybbert was initially torn between environmental studies and landscape architecture as an undergraduate major at Utah State University. A class on environmental and resource economics demonstrated the power of economics as a way to size up social problems and evaluate potential solutions. After graduating with an economics major (and French and environmental studies minors), he and his wife, Heather, lived in Morocco for a year on a Fulbright fellowship. The experience prompted him to pursue graduate work in economic development at Cornell University. After teaching for two years at the Honors College at Florida Atlantic University, he arrived at UC Davis, where he is currently Associate Professor in the Department of Agricultural and Resource Economics. Travis has worked in North Africa (Morocco, Tunisia, Syria), sub-Saharan Africa (Burkina Faso, Niger, Ghana, Ethiopia, Kenya), India, and Haiti. As a visiting researcher, he has spent time at the World Trade Organization and the World Intellectual Property Organization in Geneva, the University of Cape Coast in Ghana, and the Max Planck Institute in Munich. His current projects cover a range of topics, including drought risk and vulnerability, asset and poverty dynamics, technology adoption and markets, childhood and maternal nutrition, and intellectual property and international technology transfer. Travis teaches graduate and undergraduate courses in economic development, applied economics, and econometrics. To learn more about him, visit his faculty website: [tlybbert.ucdavis.edu](http://tlybbert.ucdavis.edu).

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*J. Edward Taylor and Travis J. Lybbert  
Davis and Berkeley, California*

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# What Development Economics Is All About

Suppose you were blindfolded and airlifted abroad. After you arrive in a small town and remove the blindfold, your job is to determine the income level of the place based only on sixty seconds of observation. What would you look for? If you have traveled or lived in a developing country, you might have a head start on this assignment: Is it hot and humid? What are people wearing? Eating? How are people getting around? What do the streets and buildings look like? Do the animals look pampered? Do you see trash or trash cans? And the smells! Most people, when exposed to living standards far below their own, want to help in some way. Economists (yes, even economists!) feel this impulse and wonder: Why are some places rich and others poor? What can be done to reduce poverty and encourage economic growth? In this chapter, we introduce development economics and describe the emergence and evolution of this field.

## ESSENTIALS

- Description of development economics
- Evolution of development economics
- Import substitution and export promotion
- Market failures
- Inseparability of efficiency and equity
- Millennium Development Goals

Malawi is one of the poorest countries in the world. The average person living there had an annual income of \$330 in 2010. That is not even a dollar a day. Even when we adjust for a low cost of living, the average Malawian lived off what in the United States would be the equivalent of around \$850 per year.<sup>1</sup>

What is the solution to Malawi's pervasive poverty?