

# ECON 256: Poverty, Growth & Inequality

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# Recap of First Half: What Did We Cover?

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## Development gaps across countries

- Enormous differences in wealth and income; as well as poverty
- Large differences in health, life expectancy, child mortality
- Substantial, but decreasing differences in education

## Key takeaway for course

Established robustness of relationship between things everybody cares about (health/education) and GDP per capita, which is easy to measure and one dimensional

# Recap of First Half: What Did We Cover?

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## Poverty within and across countries

- How poverty is measured (average poverty gap, poverty headcount ratio, % lacking necessity)
- Importance of adjusting for prices across countries (PPP) and across time (inflation) for measuring living standards of the poor
- Extreme poverty in developing countries versus poverty in developed countries

## Key takeaway for course

Extreme poverty can be eliminated and happens essentially by default with economic growth

# Recap of First Half: What Did We Cover?

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## Inequality within and across countries

- Different ways for summarizing inequality (Lorenz curve, Gini Coefficient, percentile ratios)
- Potential of a Kuznet's curve relationship between inequality and growth
- Increasing inequality within countries, decreasing inequality across countries

No key takeaway, since we haven't done much on inequality yet. Mostly just measurement; more to come when we talk about institutions and elites; as well as inequality in opportunity.

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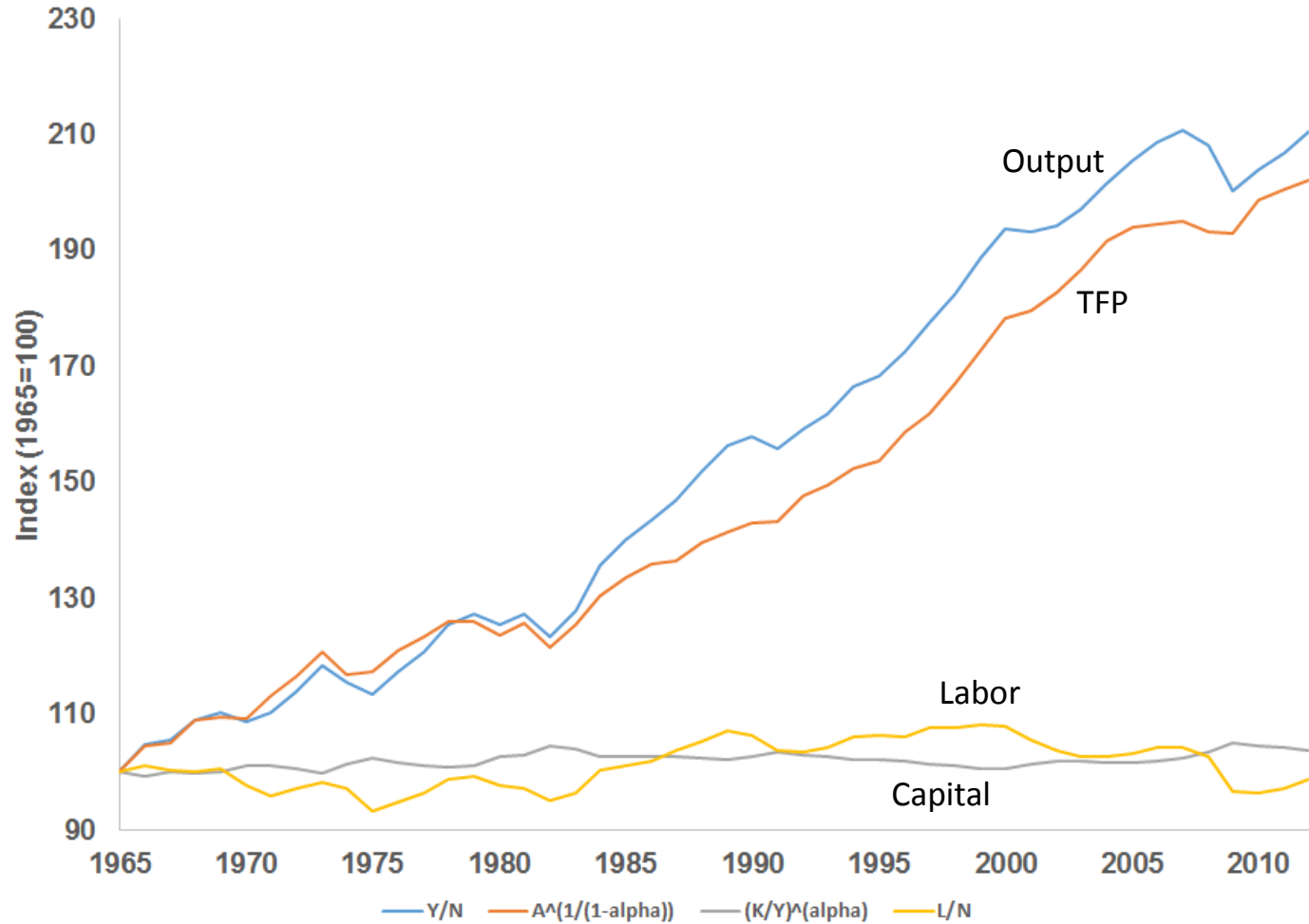
## Theories of Growth

- Covered the intuition behind the Malthusian, Solow, and Romer models + their implications, particularly for the impact of population growth on long run living standards
- Discussed the inconsistencies of each model with the data. No silver bullet for growth.
- Conducted Growth Accounting and saw main driver of growth is TFP

## Key Takeaway

- Countries can overcome seemingly hopeless situations. Long term, what seems to matter is not a country's resources (capital, labor), but how they are used (TFP)

United States Growth Accounting Decomposition, 1965–2012



# Total Factor Productivity

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## What determines Total Factor Productivity?

- Technology (especially for developed countries)
- Human capital (but can't account for most TFP growth)
- Efficiency
- Other factors: Natural disasters and Wars, Disease, Geography. International prices.

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## What determines efficiency?

- Know-how. Understanding how to harness technology that exists.
- Things that distort allocation of resources (corruption, discrimination, distortionary taxes and regulations, inefficient **institutions**)



# Plan for Rest of Semester: Distortions and Causality

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## Distortions

- How can we tell that the allocation of resources is non-optimal?
- How do we detect and address discrimination and corruption?
- Examples of distortionary regulations and institutions that impede growth and efficiency

## Causality

- How do we distinguish between Correlation and Causation?
- Looking for causal implications of poverty and inequality
- Evaluating micro-level development strategies and policy implementation

# Where will we look for Causality?

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## Equality of Opportunity Topics

- Education: How can we measure the impact schools have on students. How does education impact inequality and poverty?
- Neighborhoods and Geography: How does where people live affect their opportunities?
- Microfinance: Is expanding access to credit key for escaping poverty traps?
- Foreign Aid: How can we evaluate whether aid has unintended negative consequences?

# The Grand Plan

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## First Half of Semester: Facts and Growth

- Learn general facts about the world and where to find them; but also understand data can be misleading if we aren't precise about what the data measures and why
- Economic growth is **the** silver bullet for ending extreme poverty (although unfortunately, we don't have a silver bullet for growth; and growth doesn't end inequality)

## Second Half of Semester: Causality and Policy Evaluation

- Understand how economic models can be combined with data to produce counterfactuals
- Become familiar with how causality can and cannot be established + some advanced techniques developed by economists to do so. Also, why proof isn't as easy as it seems.