

Extractive Industries and Economic Growth

2018-19

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Course information

Course Website: <https://my.nes.ru>

Instructor's Office Hours: by appointment

Class Time:

Room Number:

TAs:

Course description

The goal of the course is to understand the main issues facing resource rich economies during resource booms and busts. To do that, students will be exposed to standard theoretical and empirical tools, as well as most up to date empirical evidence on the issues surrounding the management of resource rich economies. We will start by exploring the relationship between natural resource wealth and economic growth. In the second part of the course we will discuss the main micro- and macroeconomic issues, which should be of concern to policy makers of resource rich economies. In the third part of the course we will discuss how resource rents are shared between firms and governments, and how the latter should use such rents. In the fourth part of the course, we will focus on the political economy issues surrounding resource wealth. We will finish the course by looking at the long-term consequences of resource extraction.

Course requirements, grading, and attendance policies

A successful completion of Microeconomics, Macroeconomics as well as Econometrics is necessary. The grade will be a combination of the final exam (50%), a long essay (30%) and a presentation of an academic paper (20%). Attendance is compulsory during the presentation, but voluntary otherwise.

Course contents

Resource Wealth and Economic Growth (Lecture 1 - 2)

Main reference:

Sachs, Jeffrey D., and Andrew M. Warner. "The curse of natural resources." *European Economic Review* 45, no. 4-6 (2001): 827-838.

Smith, Brock. "The resource curse exorcised: Evidence from a panel of countries." *Journal of Development Economics* 116 (2015): 57-73.

Micro and Macro Issues of Resource Booms and Busts (Lectures 4 - 8)

Main reference:

Aragón, Fernando M., and Juan Pablo Rud. "Natural resources and local communities: evidence from a Peruvian gold mine." *American Economic Journal: Economic Policy* 5, no. 2 (2013): 1-25.

Arezki, Rabah, Valerie A. Ramey, and Liugang Sheng. "News shocks in open economies: Evidence from giant oil discoveries." *The Quarterly Journal of Economics* 132, no. 1 (2017): 103-155.

Corden, W. Max, and J. Peter Neary. "Booming sector and de-industrialisation in a small open economy." *The Economic Journal* 92, no. 368 (1982): 825-848.

Harding, Torfinn, Radoslaw Radek Stefanski, and Gerhard Toews. "Boom goes the price: Giant resource discoveries and real exchange rate appreciation." (2016).

Rent Management (Lectures 9 - 10)

Main reference:

Hartwick, John M. [1977] "Intergenerational Equity and the Investment of Rents from Exhaustible Resources" *American Economic Review*, 67, December, pp. 972-74.

Van der Ploeg, Frederick, and Anthony J. Venables. "Harnessing Windfall Revenues: Optimal Policies for Resource-Rich Developing Economies." *The Economic Journal* 121, no. 551 (2011): 1-30.

Political Economy Issues (Lectures 11 - 13)

Main reference:

Berman, Nicolas, Mathieu Couttenier, Dominic Rohner, and Mathias Thoenig. "This mine is mine! How minerals fuel conflicts in Africa." *American Economic Review* 107, no. 6 (2017): 1564-1610.

Caselli, Francesco, and Guy Michaels. "Do oil windfalls improve living standards? Evidence from Brazil." *American Economic Journal: Applied Economics* 5, no. 1 (2013): 208-38.

Mehlum, Halvor, Karl Moene, and Ragnar Torvik. "Institutions and the resource curse." *The Economic Journal* 116, no. 508 (2006): 1-20.

Long-Run Consequences (Lectures 14)

Main reference:

Michaels, Guy. "The long term consequences of resource-based specialisation." *The Economic Journal* 121, no. 551 (2011): 31-57.

Description of course methodology

Interactive classes. Moreover, we will practice how to present and how to write an essay.

Sample tasks for course evaluation

Examples of a paper to be presented by students:

1. James, Alexander. "US state fiscal policy and natural resources." *American Economic Journal: Economic Policy* 7, no. 3 (2015): 238-57.
2. Arezki, Rabah, Valerie A. Ramey, and Liugang Sheng. "News shocks in open economies: Evidence from giant oil discoveries." *The quarterly journal of economics* 132, no. 1 (2017): 103-155.

Examples of essay questions:

1. Discuss potential optimal policies on the use of resource rents and how such policies are linked to a country's level of development. What is the empirical evidence on the use of resource rents in developing and developed countries?
2. Discuss the different channels explaining the resource curse by focusing on the insights from recent research. Focus in your discussion on how convinced you are by existing evidence (e.g. identification strategy, quality of data, etc.) and the relative importance of any particular channel in explaining the resource curse.

Examples of exam questions:

1. The Dutch Disease is one of the most famous mechanisms used to justify the resource curse in developing and developed countries.
 - 1.1 Explain the Dutch Disease.
 - 1.2 Explain the difference between resource movement and spending effect (in words, graphically or algebraically).
 - 1.3 How does the relative importance of the effects discussed above vary with a country's level of economic development? Justify your answer.
 - 1.4 What is the empirical evidence on the prevalence of the Dutch Disease in developing and developed countries? Reconcile this with the theory.
2. "Power corrupts, absolute power corrupts absolutely." A common hypothesis in the resource curse literature is that resource rents tend to corrupt incumbent governments.
 - 2.1 Suggest an ideal experiment you would run to test such a hypothesis.
 - 2.2 Explain the difficulties you would face in conducting such an experiment in reality.
 - 2.3 Suggest alternative statistical methods, which can be used to answer your research question. Focus in your answer on the identification strategy.
 - 2.4 Assume that you find strong evidence for the existence for such a relationship. How convincing are results relative to the ideal experiment presented in 2.1.

Course materials

Required textbooks and materials

Neither of the books is compulsory, but if you do not like these books, well, maybe you are picking the wrong option.

[1] Ross, Michael L. *The oil curse: how petroleum wealth shapes the development of nations*. Princeton University Press, 2012.

[2] Yergin, Daniel. *The prize: The epic quest for oil, money & power*. Simon and Schuster, 2011.

Additional materials

None

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.

