

ECON 3510: Poverty and Economic Development

Introduction

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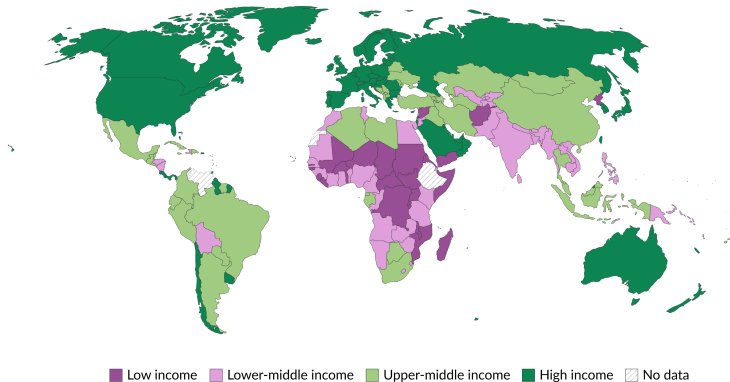
Fall 2025

Income Differences in the World

World Bank income groups, 2024

Our World
in Data

The World Bank's income classification divides countries into four categories based on their gross national income (GNI) per capita. Thresholds between income groups have changed over time.



Data source: World Bank (2025)

OurWorldinData.org/economic-growth | CC BY

Note: Countries are grouped based on the income classification for each respective year. This means that group membership can change over time. Venezuela and Ethiopia are currently unclassified.

Source: Our World in Data

Income Differences

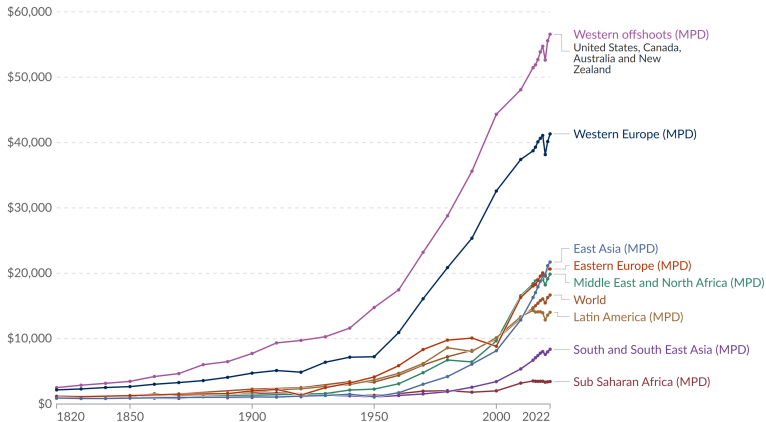
- ▶ The World Bank uses gross national income (GNI) per capita.
 - What is it? Income earned by a country's residents, either from domestic production or from assets held abroad.
 - Difference from gross domestic product (GDP)? GDP = value of outputs within a country's borders.
 - GNI and GDP are strongly correlated. GDP is also often used as a measure of income.
- ▶ Some countries' GNI per capita in 2024... Data
 - Richest? Norway, \$98,280.
 - US? \$83,660.
 - Canada? \$53,340.
 - Mexico? \$12,800.
 - China? \$13,660
 - Poorest? Burundi, \$190.
- ▶ Purchasing power parity (PPP) adjustment.
 - Why? Differences in costs of living across countries. ICP
 - However, PPP adjustment won't change much the income dispersion across the world.

Differences in Growth Even More Striking

GDP per capita, 1820 to 2022

This data is adjusted for inflation and for differences in living costs between countries.

Our World
in Data



Data source: Bolt and van Zanden - Maddison Project Database 2023

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Note: This data is expressed in international-\$¹ at 2011 prices.

Source: Our World in Data

What Explains Differences in Economic Development?

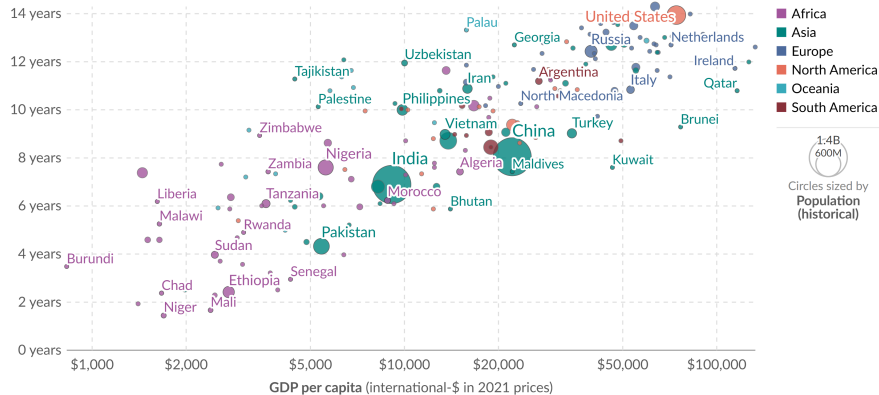
- ▶ **Economic explanation:**
- ▶ Physical capital: e.g., machines, tools, factories, computers, ...
- ▶ Human capital: e.g., education, skills, health, ...
- ▶ Technology

Richer Countries Do Have More Educated People

Average years of schooling vs. GDP per capita, 2023

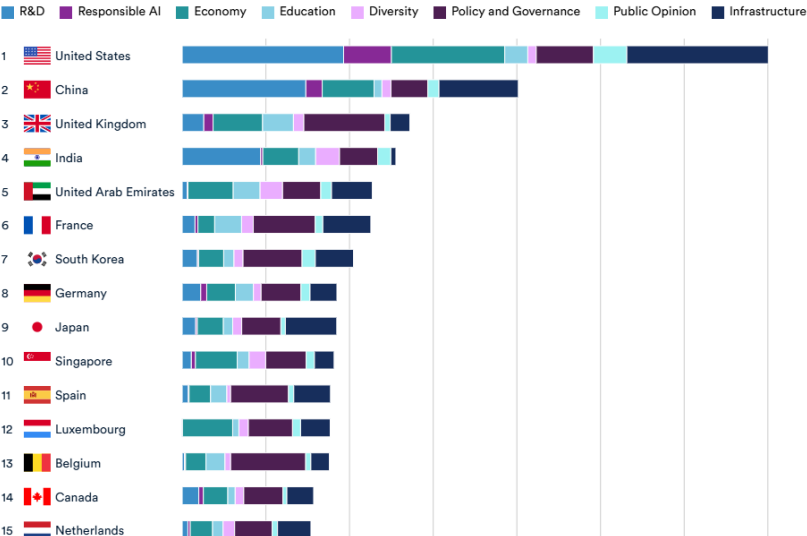
The average years of schooling completed by individuals aged 25 and older. GDP per capita is adjusted for inflation and for differences in living costs between countries.

Both genders



2023 Global AI Vibrancy Ranking

Weighted Index Score | Source: 2025 AI Index



Proximate Explanation

- ▶ A large economic literature shows that those economic factors do matter.
 - It's important to understand how they affect incomes and what economic policies are effective.
- ▶ However, the economic explanation is a **proximate explanation**.
- ▶ Capital can be accumulated, and technologies can be innovated.
- ▶ The key question is: Why do accumulation and innovation occur in some countries but not in others?

Fundamental Explanation

- ▶ What do we mean by “fundamental”? The reasons that “prevent many countries from investing enough in technology, physical capital, and human capital” (Acemoglu, 2008).
- ▶ Consider a production function:

$$Y = \underbrace{A}_{\text{technology}} F\left(\underbrace{K}_{\text{physical capital}}, \underbrace{L}_{\text{human capital}}\right)$$

- ▶ A , K , and L are not fundamental. Factors that limit their evolution are.
- ▶ In this course, we are going to focus on a fundamental explanation: **institutions**.

What Are Institutions?

- ▶ North (1990, p. 3):

“Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.”

- ▶ Key points:

- Institutions are man-made.
- Institutions set constraints and shape incentives.

- ▶ **Economic institutions:** e.g., markets, property rights, contracts, banking...

- ▶ **Political institutions:** e.g., democracy vs autocracy, separation of powers, constraints and checks on executive power...

- ▶ (Social institutions: families, social organizations...)

On Fundamental Explanations

- ▶ Institutions are certainly not the sole fundamental explanation of economic development.
- ▶ Other fundamentals:
 - Geography (e.g., Sachs, 2001);
 - Culture (e.g., Tabellini, 2008).
- ▶ A lot of debates within economics!
- ▶ This course tries to convince you that institutions *per se* do matter.
 - In fact, these fundamentals may interact with each other:
 - Fernández-Villaverde et al. (2023): geography $\Rightarrow$ unified Chinese empire & fragmented European states.
 - Acemoglu and Robinson (2025): interplay between culture and institutions.

A Case Study: Korean Peninsula



Source: NASA

Korean Divergence

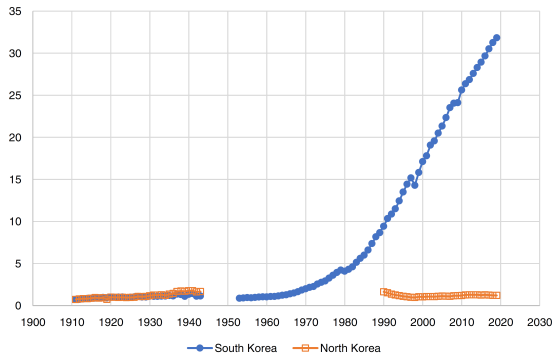


FIGURE 1 GDP per capita of the two Koreas, 1910–2019 (1000, 2019 real dollar) (Reproduced from Kim et al. (2018), Statistics Korea (2021) and Bank of Korea (2021), with permission.) [Color figure can be viewed at [wileyonlinelibrary.com](https://onlinelibrary.wiley.com)]

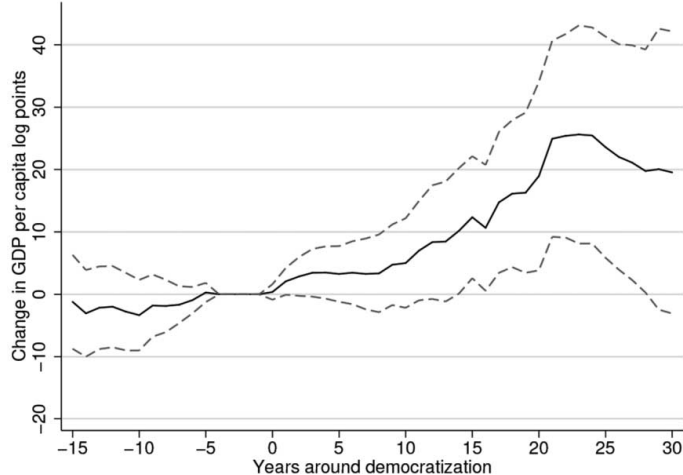
Source: Kim (2021)

- ▶ Korean Peninsula was colonized by Japan from 1910–1945.
- ▶ After WWII, the Peninsula was divided into two countries with drastically different institutions:
 - North: communism, state ownership;
 - South: capitalism, democratization in the 1980s, property rights.
- ▶ But two countries share similar geography and cultural roots.

The Devil in the Details...

- ▶ The Korean case study seems to suggest that institutional differences can account for variation in development.
- ▶ Two broad issues:
 1. *It's just one case. How do we know institutions matter more broadly? Maybe there are unobserved differences between two Koreas other than institutional differences, how do we tease out those confounders?*
 - **Approach: Applied Econometrics.**
 - We'll analyze large-scale quasi-experiments in the real world.
 - Modern econometric tools can help us determine whether institutions really cause economic growth.
 2. *Okay, but it's a black box... How exactly do institutions, for instance, property rights and democracy, affect economic outcomes?*
 - **Approach: Political Economy.**
 - A study of the interaction between political and economic systems.
 - Economic theory helps us think about the inner workings of politics. Like consumers/producers who maximize utility/profits, political actors (e.g., voters/politicians) make decisions that make them better off.
- ▶ A applied econometrics × political economy approach advances much of our understanding of economic development.

Democracy and Growth



Source: Acemoglu et al. (2019)

Populist Leaders and Growth



FIGURE 2. POPULIST LEADER SPELLS BY COUNTRY

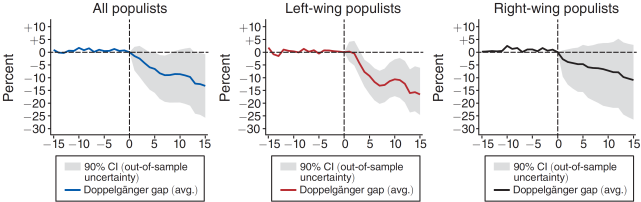
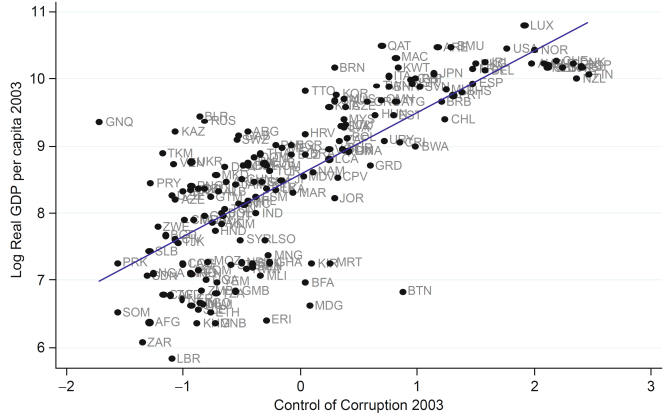


FIGURE 6. BASELINE RESULTS

Source: Funke et al. (2023)

Corruption Control and Income



Source: Baland et al. (2010)

Overview of the Course

- ▶ We'll discuss several topics:
 1. Institutions
 2. Democracy
 3. Governance Structures
 4. Corruption
- ▶ We'll draw upon research papers in economics and political science.
- ▶ Meanwhile, we'll learn some state-of-the-art econometric tools.

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024



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Daron Acemoglu
Prize share: 1/3



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Simon Henry Roberts Johnson
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James A. Robinson
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The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024 was awarded jointly to Daron Acemoglu, Simon Henry Roberts Johnson and James A. Robinson "for studies of how institutions are formed and affect prosperity"

Source: The Nobel Prize

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