

THE GEORGE WASHINGTON UNIVERSITY
Department of Economics

Economics of the Middle East & North Africa (MENA) Spring 2014	Economics 6295.10 W 6:10 — 8:00 Monroe 353
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Office Hours	M 11:00 – 2:00 & W 2:00 – 4:00
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COURSE DESCRIPTION:

The MENA is a large, complex and diverse region that faces a wide range of economic issues. Our focus will be on the economic development, current economic policies and the future economic prospects of the region. The specific countries under MENA include: Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Yemen, and the United Arab Emirates. Discussion of the economic development of the disputed territories of the West Bank and Gaza will not be discussed given the lack of reliable data.

Within Arab MENA, the Muslim countries are among the poorest countries in the world, producing a disproportionately small amount of scientific output, whether in basic research, patent activity or industrial innovation. Using the proportion of citations of articles published in internationally circulating science journals, 41 predominantly Muslim countries, globally, with about 20 percent of the world's total population, generate less than 5 percent of the world's scientific research, patents or industrial innovation.

How does one explain the huge gap in economic development, scientific output and innovation between the Arab MENA, Israel, the West and/or East Asia? What must change in Arab MENA so that economic development, science and innovation can flourish again?

One philosophical explanation offered by Jamal ad-Din al-Afghani (1838-1897) and subsequent reformers within Arab MENA can be found in the following quoted text:

“It is permissible, however, to ask oneself why Arab civilization, after having thrown such a live light on the world, suddenly became extinguished; why this torch has not been relit since; and why the Arab world still remains buried in profound darkness.”

Jamal ad-Din al-Afghani, "Answer of Jamal ad-Din to Renan, Journal des Debats, May 18,1883," as reprinted and translated on p. 187 in Nikki R. Keddie's *An Islamic Response to Imperialism, Political and Religious Writings of Sayyid Jamal ad-Din "al-Afghani"* (University of California Press, 1968, 1983).

The purpose of this course is to go beyond the philosophical speculation of Jamal ad-Din al-Afghani and his followers by examining the economic policies of the countries within MENA and

decomposing them into pro- versus anti-economic development. This course will familiarize students with the tools and procedures of country and regional analysis and apply these tools to understanding the current economic development within MENA, how these countries got where they are, the current economic issues they face, and the policies they are using to address these issues.

The course examines the following economic realities of the region and compares them across the MENA economies (in varying degrees of depth): Technology gap and comparative development; the value of education and human capital development; water and food security; the economics and politics of oil; population growth, the role of gender and labor mobility; the role of the state as economic actor; the economic value of democracy; and the prospects for regional integration.

What This Course is Not: This course is not about the latest political or economic debate on who did what to whom in the Middle East or in MENA.

The readings for this course are taken from a single textbook referred to throughout the course, along with a set of economic journal articles. The dates on the syllabus are planned presentation dates. We may be able to speed up or slow down depending on the complexity of the topic.

COURSE REQUIREMENTS:

The grade for this course is based on class participation (20%) a short methodology paper or criticism of an existing econometric methodology (20%) and on an original paper on one of the topic areas listed in the syllabus (60%). For the PhD students enrolled in the class the paper assignments would be an opportune moment to formulate your dissertation proposal. Prior approval of your paper topic is required. The completed paper will be due both in paper and electronic format on the last day of the exam week.

REQUIRED TEXTS:

Pelzman, Joseph. *The Economics of the Middle East and North Africa*. London: World Scientific Press, 2012.

READINGS AND LECTURE LIST

I. INTRODUCTION TO THE MENA

1/15

Pelzman Chapter 1.

UNDP, Cairo. *Arab Human Development Report*. 2002, 2003, 2004, 2005 and 2009. (Available on line).

UNDP, Cairo. *Arab Development Challenges Report*. 2011. (Available on line).

Bank of Israel. Jerusalem. *Annual Report_2012*. March, 2013. (Available on line).

II. A SURVEY OF THE REGION'S MAIN ECONOMIC OUTCOMES

1/22

Pelzman Chapter 2.

INSEAD. *The Global Innovation Index_ 2013: The Local Dynamics of Innovation*. (Available on line).

ITU. *Measuring the Information Society_2013*. (Available on line).

Kuran, T. "Why the Middle East is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation," *Journal of Economic Perspectives*, 18:3 (summer 2004), 71-90.

Kuran, T. "The Economic Roots of Political Underdevelopment in the Middle East: a Historical Perspective." *Southern Economic Journal* 78:4 (2012), 1086-95.

Yousef, Tarik M., "Development, Growth and Policy Reform in the Middle East and North Africa since 1950," *Journal of Economic Perspectives*, 18:3 (Summer 2004) 91–116.

Desai et. al. "The Logic of Authoritarian Bargains", *Economics & Politics* 21:1 (March 2009) 93-125.

IMF. *Regional Economic Outlook_MENA_2013* (Available on line).

OECD. *Economic Surveys_Israel_2013*. (Available on line).

III. Islamic Economics: Interest Free Finance

1/29— 2/5

Pelzman Chapter 3.

Ariss, Rima Turk, “Competitive conditions in Islamic and conventional banking: A global perspective,” *Review of Financial Economics* 19 (2010) 101–108

Beck, Thorsten, Asli Demirgüç-Kunt and Ouarda Merrouche, “Islamic vs. conventional banking: Business model, efficiency and stability”, *Journal of Banking & Finance* 37 (2013) 433–447

Chong, Beng Soon and Ming-Hua Liu “Islamic banking: Interest-free or interest-based?” *Pacific-Basin Finance Journal* 17 (2009) 125–144

Farook, Sayd, M. Kabir Hassan and Gregory Clinch, “Profit distribution management by Islamic banks: An empirical investigation,” *The Quarterly Review of Economics and Finance* 52 (2012) 333– 347

Johnes, Jill, Marwan Izzeldin, and Vasileios Pappa, “A comparison of performance of Islamic and conventional banks 2004–2009”, *Journal of Economic Behavior & Organization* (2013) in press.

Khan, Feisal “How ‘Islamic’ is Islamic Banking?” *Journal of Economic Behavior & Organization* 76 (2010) 805–820.

Kuran, Timur, “Islamic Economics and the Islamic Sub economy,” *The Journal of Economic Perspectives*, 9:4 (Autumn, 1995), 155-173

Presley, John R. and John G. Sessions. “Islamic Economics: The Emergence of a New Paradigm,” *The Economic Journal*, 104:424 (May, 1994), 584-596.

IV. Investment in HK and Endogenous Growth

2/12— 2/19

Pelzman Chapter 4.

Angrist, Joshua, "The Economic Returns to Schooling in the West Bank and Gaza Strip," *American Economic Review*, Vol. 85:5 (December, 1995), pp.1065-1087.

Angrist, Joshua D. and Victor Lavy, “The Effect of a Change in Language of Instruction on the Returns to Schooling in Morocco,” *Journal of Labor Economics*, 15:1, (January, 1997), S48-S76.

Angrist, Joshua D. and Victor Lavy (1999), “Using Maimonides’ Rule to Estimate the Effect of Class Size on Scholastic Achievement,” *Quarterly Journal of Economics*, 114:2 (May, 1999), 533-575.

Becker, Gary S., “Investment in Human Capital: A Theoretical Analysis,” *Journal of Political Economy*, 70:5, Part 2 (Oct., 1962), 9-49.

Glomm, Gerhard and B. Ravikumar, "Public versus Private Investment in Human Capital: Endogenous Growth and Income Inequality," *Journal of Political Economy*, 100:4 (Aug., 1992), 818-834.

Heckman, James J. "China's Investment in Human Capital," *Economic Development and Cultural Change*. 51:4 (July 2003), 795-804

Johnson, Thomas "Returns from Investment in Human Capital," *The American Economic Review*, Vol. 60:4 (Sep., 1970), 546-560.

Laroche, Mireille, Marcel Mérette and G. C. Ruggeri "On the Concept and Dimensions of Human Capital in a Knowledge-Based Economy Context," *Canadian Public Policy* 25:1 (Mar., 1999), 87-100.

Levhari, David and Yoram Weiss "The Effect of Risk on the Investment in Human Capital," *The American Economic Review*, 64: 6 (Dec., 1974), 950-963.

Nerlove, Marc, Assaf Razin and Efraim Sadka "Investment in Human and Nonhuman Capital, Transfers Among Siblings, and the Role of Government," *Econometrica*, 52: 5 (Sep., 1984), 1191-1198.

Ramachandran, Vijaya "Technology Transfer, Firm Ownership, and Investment in Human Capital," *The Review of Economics and Statistics*, 75:4 (Nov., 1993), 664-670.

Razin, Assaf "Optimum Investment in Human Capital," *The Review of Economic Studies*, 39:4 (Sep., 1972), 455-460

Zhang, Jie "Optimal Public Investments in Education and Endogenous Growth," *The Scandinavian Journal of Economics*, 98: 3 (Sep., 1996), 387-404.

V. Total Factor Productivity (TFP) and Endogenous Growth **2/26 — 3/5**

Pelzman Chapter 5.

Bar-Shira, Israel Finkelshtain and Avi Simhon, "Cross-Country Productivity Comparisons: The "Revealed Superiority" Approach", *Journal of Economic Growth*, 8, (2003) 301-323.

Becker, Gary S., "A Theory of the Allocation of Time" *Economic Journal*, 75:299. (September 1965). 493-517.

Ben-Porath, Yoram and Reuben Gronau. "Jewish Mother Goes to Work: Trends in the Labor Force Participation of Women in Israel, 1955-1980." *Journal of Labor Economics*, 3:1, Part 2: Trends in Women's Work, Education, and Family Building. (Jan., 1985). S310-S327.

Bental, Benjamin and Dominique Demougin "Incentive Contracts and Total Factor Productivity" *International Economic Review*, 47:3, (August 2006) 1033-1055.

Bernard, Andrew B. and Charles I. Jones “Comparing Apples to Oranges: Productivity Convergence and Measurement Across Industries and Countries,” *The American Economic Review*, 86:5 (Dec., 1996), 1216-1238.

Bernard, Andrew B. and Charles I. Jones “Productivity Across Industries and Countries: Time Series Theory and Evidence,” *The Review of Economics and Statistics*, 78:1 (Feb., 1996), 135-146.

Cingano, Federico and Fabiano Schivardi “Identifying the Sources of Local Productivity Growth,” *Journal of the European Economic Association*, 2:4 (Jun., 2004), 720-742.

Erosa, Andres, Tatyana Koreshkova and Diego Restuccia “How Important Is Human Capital? A Quantitative Theory Assessment of World Income Inequality,” *Review of Economic Studies* (2010) 77, 1421–1449

Gronau, Reuben, "Leisure, Home Production, and Work -- The Theory of the Allocation of Time Revisited" *Journal of Political Economy*, 85:6. (December, 1977) 1099-1123.

Ha, Joonkyung and Peter Howitt “Accounting for Trends in Productivity and R&D: A Schumpeterian Critique of Semi-Endogenous Growth Theory,” *Journal of Money, Credit and Banking*, Vol. 39, No. 4 (Jun., 2007), 733-774.

Herrendorf, Berthold and Akos Valentinyi “Which Sectors Make Poor Countries So Unproductive?,” *Journal of the European Economic Association* 10(2) (April 2012), 323–341

Hsieh, Chang-Tai and Peter J. Klenow “Misallocation and Manufacturing TFP in China and India,” *The Quarterly Journal of Economics*, 124:4(November 2009) 1403-1448.

Lagos, Ricardo “A Model of TFP,” *The Review of Economic Studies*, 73:4 (Oct., 2006), 983-1007.

Mulligan Casey B. and Yona Rubinstein (2005). "Selection, Investment, and Women's Relative Wages since 1975," *NBER Working Papers 11159*, (February 2005).

Rapacki, Ryszard and Mariusz Próchniak “Economic Growth Accounting in Twenty-Seven Transition Countries, 1990–2003,” *Eastern European Economics*, 47:2, (March–April 2009) 69–112.

Restuccia, Diego “Barriers to Capital Accumulation and Aggregate Total Factor Productivity,” *International Economic Review*, 45:1 (Feb., 2004), 225-238.

Sekkat, Khalid “Does competition improve productivity in developing countries?,” *Journal of Economic Policy Reform*, 12:2, (June 2009), 145–162

Sun, Chia-Hung “The Conundrum of Economic Miracle: Manufacturing Growth without TFP Growth,” *The Journal of Developing Areas*, 40: 2 (Spring, 2007), 157-172.

World Bank. *2007 Economic Developments and Prospects: Job Creation in an Era of High Growth – MENA*. Washington, 2007.

World Bank. *Unlocking the Employment Potential in the MENA: Towards a New Social Contract*. Washington, 2004.

VI. Oil Money and the ‘Dutch Disease’

3/26 — 4/2

Pelzman Chapter 6.

Aarrestad J., "Resource Extraction, Financial Transactions and Consumption in an Open Economy", *Scandinavian Journal of Economics*, (1979), 81:4, 552-565.

Corden, W.M., "Booming Sector and Dutch Disease Economics: Survey and Consolidation", *Oxford Economic Papers*, (November, 1984), 36:3, 359-380.

Corden, W.M. and J.P. Neary, "Booming Sector and De-industrialization in a Small Open Economy," *The Economic Journal*, (December, 1982), 92:368, 825-848.

Corden. M. "The Exchange Rate, Monetary Policy and North Sea Oil: The Economic Theory of the Squeeze on Tradeables", *Oxford Economic Papers*, (July, 1981). 33, Supplement, 23-46.

Dasgupta P., Eastwood R., G. Heal, "Resource Management in a Trading Economy", *Quarterly Journal of Economics*, (May, 1978), 92:2, 297-306.

Eifert, Benn, Alan Gelb, and Nils Borje Tallroth "Managing Oil Wealth," *Finance and Development*, (March, 2003). 40:1.

Kanovsky, E., "Oil: Who's over a Barrel?" *The Middle East Quarterly*, (Spring 2003), 10:2, 51-64.

Krugman, P. "The Narrow Moving Band, the Dutch Disease and the Competitive Consequences of Mrs. Thatcher on Trade in the Presence of Dynamic Scale Economies," *Journal of Development Economics*. (October, 1987), 27, 41-55.

Pinto, Brian, "Nigeria During and After the Oil Boom: A Policy Comparison with Indonesia," *World Bank Economic Review*, 1:3 (May, 1987), 419 - 445.

PASSOVER – NO CLASSES

4/16

VII. SCIENCE, TECHNOLOGY AND INNOVATION**4/9 — 4/23**

Pelzman Chapter 7.

Chuang, Yih-Chyi. "Learning by Doing, the Technology Gap, and Growth" *International Economic Review*, 39: 3. (Aug., 1998), 697-721.

Dosi, Giovanni. "Opportunities, Incentives and the Collective Patterns of Technological Change," *The Economic Journal*, 107: 444. (Sep., 1997), 1530-1547.

Gladwell, M. (2000). *The tipping point: How little things can make a big difference*. Boston: Little, Brown and Company.

Kao, J. (2007). *Innovation nation: How America is losing its innovation edge, why it matters, and what we can do to get it back*. New York: Free Press.

Krugman, Paul. "A Model of Innovation, Technology Transfer, and the World Distribution of Income," *The Journal of Political Economy*, 87: 2. (Apr., 1979), pp. 253-266.

Marburger, John H. III "Dimensions of innovation in a technology-intensive economy," *Policy Sci* (2012) 45:89–96

Marburger, John H. III "Science, technology and innovation in a 21st century Context," *Policy Sci* (2011) 44:209–213

Senor, Dan and Saul Singer. (2009) *The Start UP Nation: The Story of Israel's Economic Miracle*. New York: The Council on Foreign Relations.

Silverberg, Gerald, Giovanni Dosi and Luigi Orsenigo. "Innovation, Diversity and Diffusion: A Self-Organisation Model," *The Economic Journal*, 98:393. (Dec., 1988), 1032-1054.

Soete, Luc and Roy Turner. "Technology Diffusion and the Rate of Technical Change," *The Economic Journal*, 94:375. (Sep., 1984), 612-623.

Taleb, N. N. (2007). *The black swan: The impact of the highly improbable*. New York: Random House.

Zahlan, A. B. "The Science and Technology Gap in the Arab-Israeli Conflict," *Journal of Palestine Studies*, 1:3. (Spring, 1972), 17-36.

VIII. INTER AND INTRA REGIONAL TRADE IN MENA 4/29+ Make-Up

Pelzman Chapter 8.

Cieslik, Andrzej and Jan Hagemeyer “Assessing the Impact of the EU-sponsored Trade Liberalization in the MENA Countries,” *Journal of Economic Integration* 24:2, (June 2009) 343-368

Contessi, Silvio, Francesca de Nicola, and Li Li “International Trade, Female Labor, and Entrepreneurship in MENA Countries,” *Federal Reserve Bank of St. Louis*, (January/February 2013) 89-114.

Ekanayake, E. M. and John R. Ledgerwood, “An Analysis of the Intra-Regional Trade In The Middle East And North Africa Region,” *The International Journal of Business and Finance Research* 3:1 (2009) 19-29.

Henry, Clement, “The Clash of Globalizations in the Middle East,” *Review of Middle East Economics and Finance*, 1:1 (April 2003), 3-16.

Hoekman, Bernard and Patrick Messerlin "Harnessing Trade for Development and Growth in the Middle East." *Council on Foreign Relations*, 2002.

Katz, Hayah “The Ship from Uluburun and the Ship from Tyre: An International Trade Network in the Ancient Near East,” *Zeitschrift des Deutschen Palästina-Vereins (1953-)*, 124:2 (2008), 128-142

Kleiman, Ephraim, "Is There a Secret Arab-Israeli Trade?," *Middle East Quarterly*, 5:2, (June 1998), 11-18.

Lawrence, Robert Z., “A US-Middle East Trade Agreement: A Circle of Opportunity?” (Peterson Institute, Washington, DC, 2006); Ch. 2:

Péridy, Nicolas. “Towards a New Trade Policy between the USA and Middle-East Countries: Estimating Trade Resistance and Export Potential,” *World Economy*, 28:4, (April 2005), 491-518

Péridy, Nicolas and Corinne Bagoulla “Regional Integration and Real Convergence: Evidence from MENA Countries,” *Journal of Economic Integration*, 27: 1 (March 2012), 80-114

World Bank. 2011 *Trade Competitiveness of the Middle East and North Africa*.

World Bank 2013. *Regional Economic Integration in the Middle East and North Africa: Beyond Trade Reform*.