

## Big Push and the Resource Curse

The basic idea of Rosenstein-Rodan (1943) is that profitability of a manufacturing activity depends on whether other manufacturing activities are already in place. Specialization with increasing returns technology depends on the extent of the market, while the extent of the market depends on the degree of specialization.

There are demand spillovers that can result in lack of industrialization in the absence of investment coordination (a Big Push).

1. Try to give a broad definition of the concept Big Push
  - what does it cover?
  - to what extent does it indicate a possibility of a great leap forward?
  - discuss Big Push mechanism in the light of a development trap
2. Read the article by Murphy, Schleifer and Vishny: what are the specific characteristics that may lead the economy into a situation where the Big Push arguments apply
  - give an overview over the three set of Big-Push arguments that are discussed in the article
  - can you think about other mechanisms?
  - is multiple the equilibria approach of Murphy, Vishny and Schleifer a good way to understand the the Big Push
  - in the lecture Kalle wrote up on the blackboard

$$\frac{d\pi(n)}{dn} = \frac{\pi(n)}{M - n(1 - 1/\beta)} \quad (1)$$

while he should have written

$$\frac{dy(n)}{dn} = \frac{\pi(n)}{M - n(1 - 1/\beta)} \quad (2)$$

showing that it was the left hand side of (1) that was wrong not the calculation in itself.

- Use the set-up of Murphy, Schleifer and Vishny to derive (2) (Remember we have a number of  $M$  sectors and the productivity of the modern technology is  $\beta > 1$ )
  - interpret what the expression means
  - there is a sort of demand multiplier in the model. Does it differ from a Keynesian multiplier?
3. Read the article by Mehlum, Moene and Torvik: How can Big Push arguments help us understand the natural resource curse?
- how can rent grabbing be introduced into the Big Push mechanism?
  - how can the implications be tested empirically?

#### Reference

Rosenstein-Rodan, P. (1943) The problem of industrialization of eastern and south-eastern Europe. *Economic Journal*, 53, 202-211.