

Economics 161 — Fall 2013
Global Integration of Latin America

October 3, 2013

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1 Course Objectives

This course examines economic development in Latin American and Caribbean countries under the perspective of their integration into the global economy. The course discusses trade in primary and manufactured goods and regional trade agreements, international capital flows to Latin America, financial vulnerabilities, as well as policy responses and their interaction with poverty, income inequality, and growth. The course covers rigorous economic concepts and then applies the underlying concepts to the analysis of trade regimes, international investments, and foreign debt management.

Students work together in randomly formed groups that foster the interaction between economists and non-economists. In these work groups, students write a 3-to-4-page paper on a development issue in Latin America and select one or more group representatives for an in-class presentation and subsequent open discussion.

2 Prerequisites

Econ 1A-B or Econ 1 and 3.

3 Readings

Lecture notes become available online at URL econ.ucsd.edu/muendler/teach/13f/161 before each class. Select chapters from my future textbook *The Economics of Globalization*, or abbreviated versions, are envisaged to also become available.

Concepts textbook: Muendler (2013)/ch. 2, 3, 4, 7, 9, 14, 15, 16, 17

Latin America textbook: Franko (2007)/ch. 3, 4, 7, 8, 9, and 10

Additional readings: Domínguez (2010); Easterly (2001)/ch. 6; Fernández-Armesto (2003)/ch. 7; Fukuyama (2010); López-Calva and Lustig (2010)

To help you study the rigorous concepts underlying our analysis, chapters from my future textbook *The Economics of Globalization* (Muendler 2013) or abbreviated versions of those chapters are available on the course web page. The *Latin America textbook* by Franko provides the relevant reference to the history of economic change in Latin America. Franko textbook copies are on library reserves (<http://roger.ucsd.edu/>), and select passages are expected to become available from electronic reserves (<http://reserves.ucsd.edu/eres/>, publisher's approval pending).

The *additional readings* are intended to help you review select material beyond my future textbook and that by Franko. Those readings are available electronically through the course web page at URL econ.ucsd.edu/muendler/teach/13f/161. Note that web links to copyrighted readings only work from on-campus domains.

4 Group Paper and Presentations

To instill interaction between you and your classmates from diverse academic backgrounds, part of your course work is dedicated to a 3-to-4-page group paper in favor or against a select topic on Latin America's global economic integration. You will work in a group of about four to five students on *one* of the following eight topics, and will have to argue *either* in favor *or* against the topic:

1. Tue, October 29: **International trade in Latin America**
Readers: Yana Morgulis and Briana Sullivan
 - (a) NAFTA for Mexico: Success *or* Failure
 - (b) The MERCOSUR trade agreement: Deepen *or* Expand
 - (c) Trade in primary products: Embrace *or* Reject
 - (d) *Fair* trade certification: Promote *or* Dismiss

2. Tue, December 3: **International capital markets in Latin America**
Reader: Yana Morgulis and Nelson Lind
 - (a) Trade imbalances with China: Welcome *or* Prevent
 - (b) Private foreign investment: Promote *or* Reduce
 - (c) World Bank loans: Expand *or* Cut
 - (d) IMF loans: Promote *or* Abandon

Your goal is to present a compelling case to your classmates.

There will be 32 groups, and each group will select a representative. The first 16 group representatives will present their cases in favor or against the assigned topic during class on Tue, October 29 (*International Trade in Latin America*), and the next 16 group representatives will make their cases on Tue, December 3 (*International Capital Markets in Latin America*).

Group assignments are determined by random draw. You will be informed on Tue, October 15 whether you will work with a group to present on Tue, October 29 or to present on Tue, December 3. If it is your group's draw to present on October 29, you will also be informed on October 15 of your topic and whether your group argues in favor or against the issue. Students with presentations on December 3 will be informed on Tue, November 19 of their group members, their topic and whether they will argue in favor or against the issue.

Password-protected lists with groups and topic assignments will be posted on the course web page on October 15 and on November 19. In addition, class-wide e-mails will be sent on Wed, October 16 and on Wed, November 20 as a reminder to all enrolled students, showing groups and topic assignments. It is your responsibility to inform your group mates if your working e-mail address is not the one listed.

The group paper should be three to four pages in length, and cover the topic using a social scientist's tools: sound and educated arguments based on the adequate literature, substantiated with suitable figures and quantitative tables. Brevity forces you to make concise and clear arguments. Please see a short summary of recommendations for economical writing on the course web page.

You can discuss drafts of your 3-to-4-page papers with Yana Morgulis, Briana Sullivan and Marc Muendler if your group works on a paper for October 29 (International trade in Latin America) Yana Morgulis, Nelson Lind and Marc Muendler if your group works on a paper for December 33 (International capital markets in Latin America). We are available after class and during office hours. Yana Morgulis is offering office hours for paper preparation by voice-over-ip (VoIP) such as skype or phone during the two two-week paper preparation windows (October 15 through October 28 and November 19 through December 2), on weekdays between 3pm and 7pm. Briana Sullivan, Nelson Lind and Marc Muendler are offering regular in-person office hours during the posted times.

A *physical copy* of the final draft of your paper is **due at 4:30pm on the Monday prior to your presentation**. Papers for presentation on October 29 are due on Mon, October 28 at 4:30pm at Briana Sullivan's office (Econ 123), papers for presentation on December 3 are due on Mon, December 2 at 4:30pm at Nelson Lind's office (Sequoyah 207). Use proper citations to preclude plagiarism. Principles of academic honesty are strictly applied. For the campus-wide principles of academic honesty, please see senate.ucsd.edu/manual/appendices/appendix2.pdf.

If your group representative(s) wish(es) to use electronic resources for presentation, please send an e-mail with the according files before 5:00pm on the day prior to your presentation (submit to Briana Sullivan at bdsulliv@ucsd.edu by October 28 or to Nelson Lind at nrlind@ucsd.edu by December 2). The group representatives' class-room statement should be concise and compelling, it should not exceed three (3) minutes in length and be based on the group paper (using at most 4 slides). There will be two presenters in favor and two against each topic. The two presenters in favor or against a topic are welcome to coordinate their presentations to a total presentation time of six (6) minutes (using at most 8 slides). The group representatives' statements on each topic are followed by up to eight minutes of discussion in class.

5 Assessment

Your final raw score will be based on your points from

Group paper	50 points	due 10/28 or 12/2
Midterm exam	80 points	10/31
Final exam	120 points	12/13
<i>Total</i>	<i>250 points</i>	

The midterm and the final exam are cumulative. The midterm will be held in class, lasting 80 minutes, and will have eight (8) questions. Each question is ten minutes in length. The final exam will be held during finals week and contain twelve (12) questions, ten minutes in length each.

You will receive review sheets online on October 1, November 5 and November 21 (one at the beginning of each part of the course). These review sheets contain questions similar to questions on the exams. The review sheets help you prepare for the exams. Nelson Lind and Briana Sullivan will offer two pairs of *review sections* on Tue, October 29 (Briana Sullivan) and Wed, October 30 Nelson Lind before the midterm exam and on Thu, December 5 (Briana Sullivan) and Fri, December 6 (Nelson Lind) before the final exam.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in economics courses at UC San Diego since 2000. You can find this typical grade distribution on the course web page at URL econ.ucsd.edu/muendler/teach/13f/161. The difficulty of the exams will therefore not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. Grades of *D* and *F*, however, will not depend on the curve but on a minimal performance standard.

Appeals of scores on exams or papers must be submitted *in writing*, along with all prior exams and the paper. Following the appeal, all questions on all exams and the paper will be reconsidered. Participation in exams is mandatory and excused only under the conditions that also permit an incomplete grade: course work must be of non-failing quality and absence must be for a cause beyond the student's control. In particular, the incidence of other exams on the same day is no reason for an excuse from the exam.

You are expected to contribute to the group work on your project in a fair manner. A failure to contribute fairly will result in a score of zero or substantially below the group score. If your group agrees that a member did not contribute fairly to the project, remove the student's name from the list of co-authors on the paper. Plagiarism on the paper will be punished. Make sure all sources are cited properly. We will conduct internet searches on your text. As mentioned before, principles of academic honesty are strictly applied.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Again, principles of academic honesty are strictly applied. (Please see URL senate.ucsd.edu/manual/appendices/appendix2.pdf for the campus-wide principles of academic honesty.)

6 Class Schedule

1. Thu, September 26: Global Integration of Latin America
(Fernández-Armesto 2003/ch. 7; Fukuyama 2010)

I. Trade Integration of Latin America

2. Tue, October 1: Trade Policy and Development in Latin America
(Franko 2007/ch. 3, 8)
REVIEW SHEET I OUT

3. Thu, October 3: The Principle of Comparative Advantage
(Muendler 2013/ch. 2)

4. Tue, October 8: Competitiveness, Comparative Advantage, and the Terms of Trade
(Muendler 2013/ch. 3; Franko 2007/ch. 9)

5. Thu, October 10: Trade and Income
(Muendler 2013/ch. 4)

6. Tue, October 15: Trade in Primary Products
(Franko 2007/ch. 10)
GROUP ASSIGNMENTS.
TOPIC ASSIGNMENTS for Presentations on October 29 (*International Trade*)

7. Thu, October 17: Cases for Trade Intervention
(Muendler 2013/ch. 7)

8. Tue, October 22: Comparative Advantage, Productivity Change, and Growth
(Muendler 2013/ch. 9)

9. Thu, October 24: Foreign Direct Investment and Income
(Muendler 2013/ch. 6 (sections 6.1 and 6.2); Franko 2007/ch. 7)

Tue, October 29: PRESENTATIONS: INTERNATIONAL TRADE

Tue, October 29: REVIEW SESSION A FOR MIDTERM EXAM (Briana Sullivan)

Wed, October 30: REVIEW SESSION B FOR MIDTERM EXAM (Nelson Lind)

Thu, October 31: MIDTERM EXAM

II. International Capital Flows to Latin America

10. Tue, November 5: International Lending and Investment in Latin America
(Franko 2007/ch. 4)
REVIEW SHEET II OUT

11. Thu, November 7: The Principle of Comparative Advantage in Capital Markets
(Muendler 2013/ch. 14)

12. Tue, November 12: International Capital Flows and Growth
(Muendler 2013/ch. 15; Easterly 2001/ch. 6)

13. Thu, November 14: International Capital Flows and Sovereign Risk
(Muendler 2013/ch. 16)
TOPIC ASSIGNMENTS for Presentations on December 3 (*International Capital Markets*)

14. Tue, November 19: Global Integration, Economic Change, Poverty and Inequality
(Domínguez 2010, López-Calva and Lustig 2010)

III. Financial Crises and Policy Responses in Latin America

15. Thu, November 21: The Debt Crisis of the 1980s
(Franko 2007/ch. 4)
REVIEW SHEET III OUT

16. Tue, November 26: Debt Overhang, Debt Buybacks and Debt Forgiveness
(Muendler 2013/ch. 17)

Tue, December 3: PRESENTATIONS: INTERNATIONAL CAPITAL MARKETS

17. Thu, December 5: The 2000s and the Great Recession in Latin America
(Franko 2007/ch. 7; Levy and Schady 2013)

Thu, December 5: REVIEW SESSION A FOR FINAL EXAM (Briana Sullivan)

Fri, December 6: REVIEW SESSION B FOR FINAL EXAM (Nelson Lind)

Fri, December 13 (Finals Week): 7:00p - 9:00p FINAL EXAM (120 minutes only, starting on time)

References

- DOMÍNGUEZ, J. I. (2010): "Explaining Latin America's Lagging Development in the Second Half of the Twentieth Century: Growth Strategies, Inequality, and Economic Crises," in *Falling Behind: Explaining the Development Gap Between Latin America and the United States*, ed. by F. Fukuyama, chap. 4, pp. 72–96. Oxford University, Oxford.
- EASTERLY, W. (2001): *The elusive quest for growth: Economists' adventures and misadventures in the tropics*. MIT Press, Cambridge and London, Chapter 6, pp. 101-20 ("The Loans that Were, The Growth That Wasn't").
- FERNÁNDEZ-ARMESTO, F. (2003): *The Americas: A hemispheric history*, Modern library chronicles. Random House, New York, Chapter 7, pp. 189-206 ("Restrospect and Prospect: Gringos and Go-Getters").
- FRANKO, P. (2007): *The puzzle of Latin American economic development*. Rowman and Littlefield, Lanham, Maryland, 3rd edn.
- FUKUYAMA, F. (2010): "Conclusion," in *Falling Behind: Explaining the Development Gap Between Latin America and the United States*, ed. by F. Fukuyama, chap. 10, pp. 268–295. Oxford University, Oxford.
- LEVY, S., AND N. SCHADY (2013): "Latin America's Social Policy Challenge: Education, Social Insurance, Redistribution," *Journal of Economic Perspectives*, 27(2), 193–218.
- LÓPEZ-CALVA, L. F., AND N. LUSTIG (2010): "Explaining the Decline in Inequality in Latin America: Technological Change, Educational Upgrading, and Democracy," in *Declining Inequality in Latin America: A Decade of Progress?*, ed. by L. F. López-Calva, and N. Lustig, chap. 1, pp. 1–24. United Nations Development Program, New York.
- MUENDLER, M.-A. (2013): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.