

Economics 161 — Fall 2004

Latin American Economic Development

International Integration of Latin American Economies

November 10, 2004

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Classroom: Pepper Canyon Hall (Univ Center), room 106
Class Time: TueThu 11:00a-12:20p
Class Web Page: econ.ucsd.edu/muendler/teach/04f/161

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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 covers trade in agricultural and manufactured goods and regional trade agreements, international capital flows to Latin America, financial vulnerabilities, and policy responses. In assessing the recent and historic experience of Latin American and Caribbean economies, the course discusses economic concepts to understand the suitability of specific trade regimes, conditions for international investment and levels of foreign debt.

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 group representative for a brief in-class statement and subsequent open discussion.

2 Prerequisites

Econ 3, or Econ 1A and 1B.

3 Readings

Lecture notes become available online at econ.ucsd.edu/muendler/teach/04f/161 before each class.

Textbook: Franko (2003)/ch. 3, 4, 7, 8, 9, and 10

Readings: Easterly (2001)/ch. 6,
Fernández-Armesto (2003)/ch. 7,
Pugel (2004)/ch. 3 and 20

The readings are intended to help you review the lecture material. Chapters 4, 7, 8, and 10 of the textbook and the readings are available electronically from UCSD electronic reserves at <http://reserves.ucsd.edu/>. Chapters 3, 4, 9, and 10 of the textbook and the readings are available in print from AS Soft Reserves (one volume, copyright fees apply). Electronic readings can also be accessed through the class web page (no copyright charges on campus).

4 Group Paper and Discussion Meetings

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 in Latin American development. You will work with four to six other students on *one* of the following eight topics, and will have to argue *either* in favor *or* against the topic:

1. Thu, October 21: **International trade in Latin America**
 - (a) The MERCOSUR trade agreement: Deepen *or* Abandon
 - (b) Fair trade: Promote *or* Neglect
 - (c) NAFTA for Mexico: Success *or* Failure
 - (d) FTAA: Implement *or* Scratch
2. Tue, November 23: **International capital markets in Latin America**
 - (a) IMF and World Bank loans: Expand *or* Cut
 - (b) Foreign equity investment: Promote *or* Reduce
 - (c) The privatization of public companies: Pursue *or* Stop
 - (d) Taxes on short-term capital: Blessing *or* Curse

Your goal should be to present a compelling case to your classmates.

There will be 32 groups, and each group will select a representative. The 32 group representatives will present the case in favor or against the assigned topic during class on Thursday, October 21 (International trade in Latin America) or Tuesday, November 23 (International capital markets in Latin America).

You will be informed in class on October 7 with which of the 32 student work groups you will work. If it is your group's draw to present on October

21, you will also be informed of your topic and whether your group argues in favor or against the issue. Groups with presentations on November 23 will be informed on November 9 of their topic and whether they will argue in favor or against the issue.

You are expected to contribute to the group work on your project in a fair manner. The group paper should be three to four pages in length, and cover the topic using a young 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. You can discuss drafts of your 3-to-4-page papers with your teaching assistants Jennifer Poole and Christopher Nekarda after class and during their office hours.

The final draft of your paper is due at 11:00am preceding the presentation of the topic you were assigned (on 10/21 or 11/23). If your group representative wishes to use electronic resources for his or her presentation, please submit (or e-mail) according files before 9am on the day of your presentation to Jennifer Poole (10/21) or Christopher Nekarda (11/23). The group representative's class-room statement should be concise and compelling, it should not exceed three minutes in length and be based on the group paper. There will be two presenters in favor and two against each topic. The group representatives' statements are followed by an 8-minute discussion in class.

5 Assessment

Your final raw score will be based on your points from

Group paper	50 points	due 10/21 or 11/23
Midterm exam	80 points	11/2
Final exam	120 points	12/7
<i>Total</i>	<i>250 points</i>	

Both the midterm and the final exam are cumulative. The midterm will be held in class, lasting 80 minutes, and will comprise 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 on Sep 28, Oct 26 and Nov 18 (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. Your teaching assistants Jennifer Poole and Christopher Nekarda will offer *review sessions* around the conclusion dates for the three parts of the course.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in economics classes at UCSD. You can find this grade distribution at econ.ucsd.edu/muendler/teach/04f/161. So, the difficulty of the final exam will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. The overall curve will be shifted in your favor to account for the typical entering student's GPA.

6 Class Schedule

1. **Thu, Sep 23:** Introduction: The International Integration of Latin American Economies (Fernández-Armesto 2003/ch. 7)

I. Trade Integration in Latin America

2. **Tue, Sep 28:** Import Substituting Industrialization (Franko 2003/ch. 3)
REVIEW SHEET I OUT
3. **Thu, Sep 30:** The Principle of Comparative Advantage (Pugel 2004/ch. 3)
4. **Tue, Oct 5:** Competition and Comparative Advantage (Franko 2003/ch. 9)
5. **Thu, Oct 7:** Trade and Factor Prices When Endowments Differ (Pugel 2004/ch. 3)
GROUP ASSIGNMENTS. TOPIC ASSIGNMENTS for International Trade Discussion Meeting on Oct 21.
6. **Tue, Oct 12:** Trade in Primary and Agricultural Merchandize (Franko 2003/ch. 10)
7. **Thu, Oct 14:** Cases for Trade Interventions (Pugel 2004/ch. 3; Franko 2003/ch. 3, 9)
8. **Tue, Oct 19:** Free Trade in the Americas (Franko 2003/ch. 8)

Thu, Oct 21: INTERNATIONAL TRADE DISCUSSION MEETING

II. International Capital Flows to Latin America

9. **Tue, Oct 26:** International Lending and Investment in Latin America (Franko 2003/ch. 4)
REVIEW SHEET II OUT
 10. **Thu, Oct 28:** The Principle of Comparative Advantage for Capital (Pugel 2004/ch. 20)
- Tue, Nov 2:** MIDTERM EXAM
11. **Thu, Nov 4:** Foreign Direct Investment in Latin America (Franko 2003/ch. 7)
 12. **Tue, Nov 9:** International Capital Flows and Growth (Easterly 2001/ch. 6)
TOPIC ASSIGNMENTS for International Capital Markets Discussion Meeting on Nov 23.
No class on Thu, Nov 11 (Veterans Day Holiday)

- 13. Tue, Nov 16:** International Capital Flows and Sovereign Risk
(Pugel 2004/ch. 20)

III. Financial Crises and Policy Responses in Latin America

- 14. Thu, Nov 18:** The Debt Crisis of the 1980s and Debt Restructuring
(Franko 2003/ch. 4; Pugel 2004/ch. 20)
REVIEW SHEET III OUT

Tue, Nov 23: INTERNATIONAL CAPITAL MARKETS DISCUSSION MEETING
No class on Thu, Nov 25 (Thanksgiving Holiday)

- 15. Tue, Nov 30:** Debt Overhang, Debt Buybacks and Debt Forgiveness
(Pugel 2004/ch. 20)

- 16. Thu, Dec 2:** International Financial Crises
(Franko 2003/ch. 7; Pugel 2004/ch. 20)

Tue, Dec 7 (Finals Week): 11:30a - 1:30p FINAL EXAM

References

- 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. (2003): *The puzzle of Latin American economic development*. Rowman and Littlefield, Lanham, Maryland, 2nd edn.
- PUGEL, T. A. (2004): *International Economics*. McGraw-Hill, New York, 12th edn., Chapter 3, pp. 35-67 ("Why Everybody Trades: Comparative Advantage and Factor Proportions") and Chapter 20, pp. 517-49 ("International Lending and Financial Crises").