

Economics 161 — Spring 2010

# International Integration of Latin American Economies

## *Latin American Economic Development*

April 15, 2010

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Office:	Economics 312	
Office hours:	Wed 9:30am - 11:00am	
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Classroom:	HSS room 1330	
Class Time:	TuTh 9:30am - 10:50am	
Class Web Page:	<a href="http://econ.ucsd.edu/muendler/teach/10s/161">econ.ucsd.edu/muendler/teach/10s/161</a>	
Section ID	679341	
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Office hours:	Tue 2:00pm - 3:00pm	Thu 3:00pm - 4:00pm

## 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 agricultural and manufactured goods and regional trade agreements, international capital flows to Latin America, financial vulnerabilities, and policy responses. The course covers underlying economic concepts to inform 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 group representative for an 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/10s/161](http://econ.ucsd.edu/muendler/teach/10s/161) before each class.

**Textbook:** Franko (2007)/ch. 3, 4, 7, 8, 9, and 10

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

**Background readings:** Birdsall and Graham (2000), Fraga (2004), Hamilton (2009), Loungani and Razin (2001), Lustig (2008), Ocampo (2004), Rodrik and Subramanian (2003)

The main readings are intended to help you review conceptual lecture material, the background readings provide additional facts and discussion. Chapters 3, 4, 7, and 9 of the textbook's third edition Franko (2007) and the readings are available electronically from UCSD electronic reserves at [reserves.ucsd.edu](http://reserves.ucsd.edu). Additional readings are available electronically through the class web page at [econ.ucsd.edu/muendler/teach/10s/161](http://econ.ucsd.edu/muendler/teach/10s/161). From the textbook's *second* edition Franko (2003), chapters 4, 7, 8, and 10 are also available through the class web page, but the textbook's third edition is considerably more accurate with economic concepts. No copyright charges apply for electronic access from campus.

## 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 international economic integration. You will work in a group of 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, April 27: **International trade in Latin America**  
*Reader:* Aaron Schroeder
  - (a) The MERCOSUR trade agreement: Deepen *or* Expand
  - (b) NAFTA for Mexico: Success *or* Failure
  - (c) CAFTA for Central America: Paramount *or* Negligible
  - (d) Fair trade: Promote *or* Neglect
2. Tue, June 1: **International capital markets in Latin America**  
*Reader:* Aaron Schroeder
  - (a) IMF and World Bank loans: Expand *or* Cut
  - (b) Private foreign investment: Promote *or* Reduce
  - (c) Privatization of public companies: Pursue *or* Stop
  - (d) Taxes on short-term capital: Blessing *or* Curse

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, April 27 (*International Trade in Latin America*), and the next 16 group representatives will make their cases on Tue, June 1 (*International Capital Markets in Latin America*).

Group assignments are determined by random draw. You will be informed on Tue, April 13 whether you will work with a group to present on Tue, April 27 or to present on Tue, June 1.

If it is your group's draw to present on April 27, you will also be informed of your topic and whether your group argues in favor or against the issue. Students with presentations on June 1 will be informed on Tue, May 18 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 class web page on April 13 and on May 18. In addition, class-wide e-mails will be sent on Thu, April 15 and on Thu, May 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 class web page. You can discuss drafts of your 3-to-4-page papers with Aaron Schroeder or Marc Muendler, after class and during office hours.

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.

The final draft of your paper is **due at 4:30pm on the Monday prior to your presentation** in Aaron Schroeder's office, Sequoyah Hall 207 (papers for presentation on April 27 are due on Mon, April 26 at 4:30pm, papers for presentation on June 1 are due on Mon, May 31 at 4:30pm). Aaron Schroeder will grade the papers.

If your group representative wishes to use electronic resources for his or her presentation, please submit (or e-mail) to Aaron Schroeder according files before 5:00pm on the day prior to your presentation (April 26 or May 31). The group representative's 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 4/26 or 5/31
Midterm exam	80 points	4/29
Final exam	120 points	6/8
<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 on April 1, May 4 and May 20 (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. Aaron Schroeder will offer *review sessions* on

Wed, April 28 before the midterm exam and on Thu, June 3 before the final exam. Chulyoung Kim will grade both exams.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in economics classes at UCSD since 2000. You can find this grade distribution at the class web page [econ.ucsd.edu/muendler/teach/10s/161](http://econ.ucsd.edu/muendler/teach/10s/161). So the difficulty of the exams will 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 any prior exams and papers. Following the appeal, all questions on all exams will be reconsidered. Participation in exams and papers 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.

## 6 Class Schedule

**1. Tue, March 30:** The International Integration of Latin American Economies  
(Fernández-Armesto 2003/ch. 7)

### I. Trade Integration of Latin American Economies

**2. Thu, April 1:** Import Substitution Industrialization  
(Franko 2007/ch. 3)  
REVIEW SHEET I OUT

**3. Tue, April 6:** The Principle of Comparative Advantage  
(Pugel 2004/ch. 3)

**4. Thu, April 8:** Competition and Comparative Advantage  
(Franko 2007/ch. 9)

**5. Tue, April 13:** Trade and Factor Prices When Endowments Differ  
(Pugel 2004/ch. 3; *background*: Birdsall and Graham 2000)  
GROUP ASSIGNMENTS. TOPIC ASSIGNMENTS for  
Presentations on April 27 (*International Trade*)

**6. Thu, April 15:** Trade in Primary and Agricultural Merchandize  
(Franko 2007/ch. 10; *background*: Lustig 2008, Hamilton 2009)

**7. Tue, April 20:** Cases for Trade Intervention  
(Pugel 2004/ch. 3; Franko 2007/ch. 3, 8)

**8. Thu, April 22:** Comparative Advantage and Productivity Change  
(Franko 2007/ch. 8, 9; *background*: Fraga 2004, Ocampo 2004)

**Tue, April 27:** PRESENTATIONS: INTERNATIONAL TRADE

**Wed, April 28:** REVIEW SESSION FOR MIDTERM EXAM (Aaron Schroeder)

**Thu, April 29:** MIDTERM EXAM

## II. International Capital Flows to Latin America

- 9. Tue, May 4:** International Lending and Investment in Latin America  
(Franko 2007/ch. 4)  
REVIEW SHEET II OUT
- 10. Thu, May 6:** The Principle of Comparative Advantage in Capital Markets  
(Pugel 2004/ch. 20)
- 11. Tue, May 11:** Foreign Direct Investment in Latin America  
(Franko 2007/ch. 7; *background*: Loungani and Razin 2001)
- 12. Thu, May 13:** International Capital Flows and Growth  
(Easterly 2001/ch. 6; *background*: Rodrik and Subramanian 2003)
- 13. Tue, May 18:** International Capital Flows and Sovereign Risk  
(Pugel 2004/ch. 20)  
TOPIC ASSIGNMENTS for Presentations on June 1 (*International Capital Markets*)

## III. Financial Crises and Policy Responses in Latin America

- 14. Thu, May 20:** The Debt Crisis of the 1980s and Debt Restructuring  
(Franko 2007/ch. 4; Pugel 2004/ch. 20)  
REVIEW SHEET III OUT
- 15. Tue, May 25:** Debt Overhang, Debt Buybacks and Debt Forgiveness  
(Pugel 2004/ch. 20)
- 16. Thu, May 27:** International Financial Crises  
(Franko 2007/ch. 7; Pugel 2004/ch. 20)
- Tue, June 1:** PRESENTATIONS: INTERNATIONAL CAPITAL MARKETS
- 17. Thu, June 3:** Latin America in the current Great Recession
- Thu, June 3:** REVIEW SESSION FOR FINAL EXAM (Aaron Schroeder)
- Tue, June 8 (Finals Week): 8:00a - 10:00a** FINAL EXAM (120 minutes only, starting on time)

## References

- BIRDSALL, N., AND C. GRAHAM (2000): "Mobility and Markets: Conceptual Issues and Policy Questions," in *New Markets, New Ideas: Economic and Social Mobility in a Changing World*, ed. by N. Birdsall, and C. Graham, chap. 1, pp. 3–21. Brookings Institution Press and Carnegie Endowment, Washington, DC.
- 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").

- FRAGA, A. (2004): "Latin America since the 1990s: Rising from the Sickbed?," *Journal of Economic Perspectives*, 18(2), 89–106.
- FRANKO, P. (2003): *The puzzle of Latin American economic development*. Rowman and Littlefield, Lanham, Maryland, 2nd edn.
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- HAMILTON, J. D. (2009): "Causes and Consequences of the Oil Shock of 2007-08," *Brookings Papers on Economic Activity*, 2009(1), 215–83.
- LOUNGANI, P., AND A. RAZIN (2001): "How Beneficial Is Foreign Direct Investment for Developing Countries?," *Finance & Development*, 38(2).
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- OCAMPO, J. A. (2004): "Latin America's Growth and Equity Frustrations During Structural Reforms," *Journal of Economic Perspectives*, 18(2), 67–88.
- 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").
- RODRIK, D., AND A. SUBRAMANIAN (2003): "The Primacy of Institutions," *Finance & Development*, 40(2), 31–34.