

Economics 161 — Spring 2011

# Global Integration of Latin America

April 6, 2011

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Office:	Economics 312		
Office hours:	Wed 9:30am-10:30am		
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Classroom:	Warren Lecture Hall 2005		
Class Time:	TuTh 2:00pm-3:20pm		
Class Web Page:	<a href="http://econ.ucsd.edu/muendler/teach/11s/161">econ.ucsd.edu/muendler/teach/11s/161</a>		
Section ID	715357		
Teaching Assistants:	Kristy Buzard	Ketki Sheth	Sam Young
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Office hours:	Thu 1:00pm-2:00pm	Thu 3:30pm-5:00pm	Thu 9:00am-10:00am

## 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 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 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 [econ.ucsd.edu/muendler/teach/11s/161](http://econ.ucsd.edu/muendler/teach/11s/161) before each class.

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

**Main readings:** Domínguez (2010); Easterly (2001)/ch. 6; Fernández-Armesto (2003)/ch. 7; Fukuyama (2010); López-Calva and Lustig (2010); Pugel (2004)/ch. 3 and 20

**Background readings:** Barros, de Carvalho, Franco, and Mendonça (2010), Birdsall and Graham (2000), Esquivel, Lustig, and Scott (2010), Fraga (2004), Hamilton (2009), Loungani and Razin (2001), Lustig (2008), Ocampo (2004), Rodrik and Subramanian (2003)

The *textbook* provides the main reference to economic change in Latin America. The *main readings* are intended to help you review conceptual lecture material beyond the textbook and to complement the textbook on recent economic change. The *background readings* provide additional facts and discussion. Most readings are available electronically through the class web page at [econ.ucsd.edu/muendler/teach/11s/161](http://econ.ucsd.edu/muendler/teach/11s/161). 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 four to six students on *one* of the following eight topics, and will have to argue *either* in favor *or* against the topic:

1. Tue, April 26: **International trade in Latin America**  
*Readers:* Kristy Buzard and Sam Young
  - (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: Promote *or* Dismiss
2. Tue, May 31: **International capital markets in Latin America**  
*Reader:* Ketki Sheth
  - (a) Privatization of public companies: Pursue *or* Stop
  - (b) Private foreign investment: Promote *or* Reduce
  - (c) IMF and World Bank loans: Expand *or* Cut
  - (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 26 (*International Trade in Latin America*), and the next 16 group representatives will make their cases on Tue, May 31 (*International Capital Markets in Latin America*).

Group assignments are determined by random draw. You will be informed on Tue, April 12 whether you will work with a group to present on Tue, April 26 or to present on Tue, May 31. If it is your group's draw to present on April 26, you will also be informed of your topic and whether your group argues in favor or against the issue. Students with presentations on May 31 will be informed on Tue, May 17 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 12 and on May 17. In addition, class-wide e-mails will be sent on Wed, April 13 and

on Wed, May 18 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 Kristy Buzard, Ketki Sheth, Sam Young 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.

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 April 26 are due on Mon, April 25 at 4:30pm in Sam Young's office (Econ 126), papers for presentation on May 31 are due on Mon, May 30 at 4:30pm at Ketki Sheth's office (Sequoyah 237). Apply proper citations. Principles of academic honesty are strictly applied.

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 Sam Young at [smyoung@ucsd.edu](mailto:smyoung@ucsd.edu) by April 25 or to Ketki Sheth at [ksheth@ucsd.edu](mailto:ksheth@ucsd.edu) by May 30). 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 4/25 or 5/30
Midterm exam	80 points	4/28
Final exam	120 points	6/7
<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 March 31, May 3 and May 24 (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. Kristy Buzard, Ketki Sheth and Sam Young will offer *review sessions* on Tue, April 26 (Kristy Buzard) and Wed, April 27 (Sam Young) before the midterm exam and on Thu and Fri, June 2 and 3 (Ketki Sheth) before the final exam.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in economics classes at UC San Diego since 2000. You can find this grade distribution at the class web page [econ.ucsd.edu/muendler/teach/11s/161](http://econ.ucsd.edu/muendler/teach/11s/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 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.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Principles of academic honesty are strictly applied.

## 6 Class Schedule

**1. Tue, March 29:** Global Integration of Latin America  
(Fernández-Armesto 2003/ch. 7; Fukuyama 2010)

I. Trade Integration of Latin America

**2. Thu, March 31:** Trade Policy and Development in Latin America  
(Franko 2007/ch. 3, 8)  
REVIEW SHEET I OUT

**3. Tue, April 5:** The Principle of Comparative Advantage  
(Pugel 2004/ch. 3)

**4. Thu, April 7:** Competitiveness, Comparative Advantage and the Terms of Trade  
(Franko 2007/ch. 9)

**5. Tue, April 12:** Trade and Income  
(Pugel 2004/ch. 3; *background*: Birdsall and Graham 2000)  
GROUP ASSIGNMENTS. TOPIC ASSIGNMENTS for  
Presentations on April 26 (*International Trade*)

**6. Thu, April 14:** Trade in Primary Products  
(Franko 2007/ch. 10; *background*: Lustig 2008, Hamilton 2009)

**7. Tue, April 19:** Cases for Trade Intervention  
(Pugel 2004/ch. 3; Franko 2007/ch. 3, 8)

**8. Thu, April 21:** Comparative Advantage, Productivity Change, and Growth  
(Franko 2007/ch. 8, 9; *background*: Fraga 2004, Ocampo 2004)

**Tue, April 26:** PRESENTATIONS: INTERNATIONAL TRADE

**Tue, April 26:** REVIEW SESSION A FOR MIDTERM EXAM (Kristy Buzard)

**Wed, April 27:** REVIEW SESSION B FOR MIDTERM EXAM (Sam Young)

**Thu, April 28:** MIDTERM EXAM

## II. International Capital Flows to Latin America

9. **Tue, May 3:** International Lending and Investment in Latin America  
(Franko 2007/ch. 4)  
REVIEW SHEET II OUT
10. **Thu, May 5:** The Principle of Comparative Advantage in Capital Markets  
(Pugel 2004/ch. 20)
11. **Tue, May 10:** Foreign Direct Investment and Income  
(Franko 2007/ch. 7; *background:* Loungani and Razin 2001)
12. **Thu, May 12:** International Capital Flows and Growth  
(Easterly 2001/ch. 6; *background:* Rodrik and Subramanian 2003)
13. **Tue, May 17:** International Capital Flows and Sovereign Risk  
(Pugel 2004/ch. 20)  
TOPIC ASSIGNMENTS for Presentations on May 31 (*International Capital Markets*)
14. **Thu, May 19:** Global Integration, Economic Change, Poverty and Inequality  
(Domínguez 2010, López-Calva and Lustig 2010; *background:* Barros, de Carvalho, Franco, and Mendonça 2010, Esquivel, Lustig, and Scott 2010)

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

15. **Tue, May 24:** The Debt Crisis of the 1980s and Debt Restructuring  
(Franko 2007/ch. 4; Pugel 2004/ch. 20)  
REVIEW SHEET III OUT
  16. **Thu, May 26:** Debt Overhang, Debt Buybacks and Debt Forgiveness  
(Pugel 2004/ch. 20)
- Tue, May 31:** PRESENTATIONS: INTERNATIONAL CAPITAL MARKETS
17. **Thu, June 2:** Earlier Financial Crises and the Great Recession in Latin America  
(Franko 2007/ch. 7; Pugel 2004/ch. 20)
- Thu, June 2:** REVIEW SESSION A FOR FINAL EXAM (Ketki Sheth)
- Fri, June 3:** REVIEW SESSION B FOR FINAL EXAM (Ketki Sheth)
- Tue, June 7 (Finals Week): 3:00p - 5:00p** FINAL EXAM (120 minutes only, starting on time)

## References

- BARROS, R., M. DE CARVALHO, S. FRANCO, AND R. MENDONÇA (2010): "Markets, the State and the Dynamics of Inequality in Brazil," in *Declining Inequality in Latin America: A Decade of Progress?*, ed. by L. F. López-Calva, and N. Lustig, chap. 1, pp. 134–174. United Nations Development Program, New York.
- 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.
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- LUSTIG, N. (2008): "Thought for Food: The Challenges of Coping with Soaring Food Prices," George Washington University, unpublished manuscript.
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- 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.