

Economics 102 — Fall 2018

Globalization

October 3, 2018

Co-Instructors:	Marc-Andreas Muendler (through Oct 30)	Patrick Bloom (starting Nov 1)	
Office hours:	Thu 11:30a-12:30p (Oct)	Thu 11:30a-12:30p (Nov and Dec)	
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Office hours:	Wed 1:30p-2:30p	Mon 1:00p-2:00p	Thu 4:30p-5:30p
Readers:	Carlos Bezerra de Goes	Sabareesh Ramachandran	
Class Times:	TueThu 8:00a-9:20a		
Classroom:	Peterson 110		
Course Web Page:	econ.ucsd.edu/muendler/teach/18f/102		
Section Times:	Wed 3:00p-3:50p	Wed 4:00p-4:50p	
Section Room:	Solis 104	Solis 104	
Section IDs	947136	947137	

1 Course Objectives

This course on the economics of globalization presents theories of global economic integration, each grounded in the principle of comparative advantage. Lectures investigate patterns of trade when trade is balanced and capital flows when trade is not balanced, with a focus on trade in goods, services and sovereign debt securities. The course aims to assess the consequences of economic globalization and evaluate economic policies for industry location, incomes, welfare and economic growth.

The course is designed as an early upper-division class that presents foundations for *International Trade* (Economics 101) and *International Monetary Relations* (Economics 103) and other related courses. The first half of the course shares topics with Econ 101, emphasizing the essentials of comparative advantage for specialization in economics activities and the trade in goods or services. The second half lays real-side foundations for Econ 103, emphasizing the idea of comparative advantage over time for lending and borrowing in international capital markets.

2 Prerequisites

Econ 1 and 2 or 3, or 100B.

(Students who are academically prepared to take Econ 100B, or have taken Econ 100B, are also academically prepared to take 102.)

3 Readings and Podcasts

Electronic lecture notes are available online at econ.ucsd.edu/muendler/teach/18f/102 an through TritonEd. Key graphs are left empty for you to complete in class. On October 30, complete lecture notes (with overlay graphs) will become available for lectures 1 through 10. On December 6, the remaining complete lecture notes (with overlay graphs) will become available for lectures 11 through 18.

Textbook draft: Muendler (2014)/ch. 1-4, 6 and 14

Chapters of the textbook draft Muendler (2014)/ch. 1-4, 6 and 14 are available for download from the class web page (see link above) prior to the respective lectures. The chapters are zipped and password protected. The password is given out on the first day in class.

The lectures will become available, as held, in the form of podcasts.

4 Problem Sets

There will be two problem sets, due on scheduled dates prior to the two exams. You are encouraged to work on the problems with your classmates. Your teaching assistant will hold sections over the course of the quarter (see schedule below) to help you solve the problems, and you can receive assistance during any of the scheduled office hours. The problem set questions are written in the style of review questions that span material *across* individual lectures.

Your solutions to the problem sets will be checked by question (check/half check/no check) and your performance on them will be a part of the final grade. Correct answers count five points per question, partly correct answers 2.5 points and incorrect answers zero.

Your teaching assistants Olga Denislamova, Jake Orchard and Wanchang Zhang will offer three problem set review sections per problem set to help you solve the problems. Problem sets have to be handed in *on paper* by the due date (Friday of week 5 and Friday of week 10). You must drop the problem sets off in the assigned course mailbox at the economics department by both due times, November 2 at 4:50p and December 7 at 4:50p. No problem set will be accepted after the respective due time (November 2 at 5:00p and December 7 at 5:00p after a ten-minute grace period).

5 iClicker

During lecture, you will be asked to answer policy-relevant questions on the economics of globalization using iClicker. Your answers will not be scored for correct or incorrect. Typically, the same question will be asked twice: once in the beginning of a lecture, prior to the presentation of the lecture's main theoretical or empirical material, and once after the main material has been presented and discussed.

If you answer *all* questions (typically two but sometimes more) during a lecture, your participation will be recorded. If, at the end of the quarter, your iClicker records show participation in twelve (12) out of the seventeen lecture days with iClicker use, then you receive a score of 20 additional points. However, if you do not want to use an iClicker or if your records do not show full participation in at least twelve lectures, your scores on all other assignments will be scaled by a factor that exactly compensates you for the foregone 20 points. iClicker participation in at least twelve lectures therefore guarantees you a full additional score of 20 points but, in case your iClicker participation falls short, you can make up the foregone score with proportional to your performance on the other assignments.

6 Assessment

There will be one midterm exam and a final exam. The midterm exam will take 70 minutes and the final exam will take 120 minutes (no extra time). The final exam is cumulative. The midterm exam contains eight 10-minute questions, the final exam contains twelve 10-minute questions. For problem sets to be considered, they have to be handed in *before* the due date and time.

Your final raw score will be your total points from the two exams, the two problem sets and, optionally, your iClicker participation:

Problem sets:	90 points (45+45 points)	November 2, December 7
Midterm (70 minutes):	70 points	November 1
Final (120 minutes):	120 points	December 11
iClicker participation (12 of 17 lectures):	20 points*	December 7
<i>Total:</i>	300 points	*otherwise score scaled by 300/280

If your iClicker records fall short of full participation in 12 out of the 17 lectures with iClicker use, or if you do not want to use iClicker, then your scores on all other assignments (which count for up to 280 points) will be scaled by a factor of 300/280 to compensate you for the foregone 20 points.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego. You can find this grade distribution at econ.ucsd.edu/muendler/teach/18f/102. The difficulty or simplicity of problem sets and exams will therefore not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. Grades of *D* or *F* will not depend on the curve but on a minimal performance standard.

There are two review sections, one prior to the midterm exam and one prior to the final exam, to help you prepare for the exams.

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. Under its current rules, Student Health Services offers access to medical excuses that document illness *only under extreme circumstances*. To be excused from the midterm because of illness, the student must inform the instructor *before* the midterm exam. To be excused from the final exam, however, the illness must be sufficiently severe so that Student Health Services or another health-care provider does document the illness.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed, and all other objects must be outside your immediate reach at all times during the exam. Principles of academic honesty are strictly applied. Regardless of any potential additional sanction from the academic integrity office, or the absence of an additional sanction, the exam score will be zero if there is an exam rule violation. The complete UC San Diego Policy on Integrity of Scholarship can be viewed at: senate.ucsd.edu/manual/appendices/appendix2.pdf. On each exam, you are required to sign a personal pledge of academic integrity.

Appeals of scores on exams must be submitted in writing, along with all prior exams and problem sets. Following the appeal, all questions on all exams and problem sets will be reconsidered. An appeal may be denied if the exam was written with a pencil.

7 Course Schedule

1. **Thu, September 27:** Globalization and the Principle of Comparative Advantage
(Muendler 2014/ch. 1 and 2, *no iClicker records*)
PROBLEM SET 1 OUT

I. International Product Markets

2. **Tue, October 2:** Comparative Advantage, Trade Flows and the Gains from Trade
(Muendler 2014/ch. 2)
Wed, October 3, week 1 sections: Linear Production Possibility Frontier
3. **Thu, October 4:** Competitiveness, Comparative Advantage, and the Terms of Trade
(Muendler 2014/ch. 3, sections 3.1 and 3.2)
4. **Tue, October 9:** Trade in Final Goods and the Distribution of Incomes
(Muendler 2014/ch. 4)
Wed, October 10, week 2 sections: Standard Production Possibility Frontier
5. **Thu, October 11:** Offshoring and the Distribution of Incomes
(Muendler 2014/ch. 6, sections 6.1 and 6.2)
6. **Tue, October 16:** Primary Products and the Distribution of Gains from Trade
(Muendler 2014/ch. 6, sections 6.1, 6.2 and 6.4)
Wed, October 17, week 3 sections: Problem set 1, questions 1-3
7. **Thu, October 18:** Instruments of Trade Policy
(Krugman, Obstfeld, and Melitz 2011/ch. 9)
8. **Tue, October 23:** Costs and Benefits of Trade Restrictions
Wed, October 24, week 4 sections: Problem set 1, questions 4-6
9. **Thu, October 25:** Cases for Trade Interventions
10. **Tue, October 30:** Comparative Advantage, Productivity Change, and Growth
(Muendler 2014/ch. 9)
Complete lecture notes (with overlay) available for lectures 1 through 10
Wed, October 31, week 5 sections: Problem set 1, questions 7-9
Wed, October 31, time TBA (evening): *Midterm exam review* (room TBA)
- Thu, November 1, 8:00a - 9:10a:** MIDTERM (70 minutes)
covering lectures 1 through 10 (*no iClicker records*)
- Fri, November 2:** PROBLEM SET 1 DUE AT 4:50P (IN ECON 102 MAILBOX)
11. **Tue, November 6:** Political Economy of Open-market Policies and Agreements

II. International Capital Markets

- Wed, November 7, week 6 sections:** Expected Values and Expected Returns
Graded problem set 1 back *after* review
- 12. Thu, November 8:** International Capital Markets in Theory and Practice
(Muendler 2014/ch. 14)
PROBLEM SET 2 OUT
- 13. Tue, November 13:** The Principle of Comparative Advantage in Capital Markets
- Wed, November 14, week 7 sections:** Intertemporal Production Possibility Frontier
- 14. Thu, November 15:** International Capital Flows and Growth
- 15. Tue, November 20:** International Capital Flows and Sovereign Risk
- Wed, November 21, week 8 sections:** Problem set 2, questions 1-3
- 16. Tue, November 27:** Debt Overhang, Debt Buybacks and Debt Forgiveness
- Wed, November 28, week 9 sections:** Problem set 2, questions 4-6
- 17. Thu, November 29:** Debt Sustainability and Financial Crises
- Tue, December 4:** Open Discussion of Globalization Now and in the Future
(no iClicker records)
- Wed, December 5, week 10 sections:** Problem set 2, questions 7-9
- 18. Thu, December 6:** Perspectives on Globalization, Poverty, Inequality and Prosperity
Complete lecture notes (with overlay) available for lectures 11 through 18
- Fri, December 7, 4:50p:** PROBLEM SET 2 DUE AT 4:50P (IN ECON 102 MAILBOX)
- Fri, December 7, time TBA:** *Final exam review* (room TBA)
- Tue, December 11, 8:00a-10:00a:** FINAL EXAM. Room TBA (120 minutes only)
covering lectures 1 through 18

References

- KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2011): *International Economics: Theory & Policy*, Pearson Custom Business Resources. Pearson Learning Solutions, New York, special extract compiled for UC San Diego.
- MUENDLER, M.-A. (2014): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.