

Economics 102 — Spring 2016

# Globalization

March 28, 2016

Instructor:	Marc-Andreas Muendler	
Office:	Economics 312	
Office hours:	Thu 9:30a-10:30a	
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Class Time:	TueThu 11:00a-12:20p	
Classroom:	CICC 101 (Copley International Conference Center)	
Course Web Page:	<a href="http://econ.ucsd.edu/muendler/teach/16s/102">econ.ucsd.edu/muendler/teach/16s/102</a>	
Section Times:	W 6:00p-6:50p	W 7:00p-7:50p
Section Room:	Solis 104	Solis 104
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## 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 a lower-level upper-division class that presents foundations for both *International Trade* (Economics 101) and *International Monetary Relations* (Economics 103). 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. 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.

## 3 Readings

Lecture notes become available online at [econ.ucsd.edu/muendler/teach/16s/102](http://econ.ucsd.edu/muendler/teach/16s/102) before each class.

**Forthcoming textbook:** 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. (Further textbook draft chapters may become available over the course of the quarter.) The chapters are zipped and password protected. The password is given out on the first day in class.

## 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 assistant 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 on the due date. You can drop the problem sets off in the assigned course mailbox at the economics department on both due times, 5/3 at 10:50a and 6/3 at 4:50p. You may also bring problem set 1 to the midterm exam and hand it in *prior* to the exam at 10:50a; problem set 2 must be dropped off in the course mailbox. No problem set will be accepted after the respective due time (5/3 at 11:00a and 6/3 at 5:00p after a ten-minute grace period).

## 5 Assessment

There will be one midterm exam and a final exam. The midterm exam will take 80 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 three exams and the three problem sets:

Problem sets:	90 points (45+45 points)	5/3, 6/3
Midterm (80 minutes):	80 points	5/3
Final (120 minutes):	120 points	6/7
<i>Total:</i>	290 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/16s/102](http://econ.ucsd.edu/muendler/teach/16s/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. Principles of academic honesty are applied strictly. The complete UC San Diego Policy on Integrity of Scholarship can be viewed at: [senate.ucsd.edu/manual/appendices/appendix2.pdf](http://senate.ucsd.edu/manual/appendices/appendix2.pdf).

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 will be reconsidered. An appeal may be denied if the exam was written with a pencil.

## 6 Course Schedule

1. **Tue, March 29:** Globalization and the Principle of Comparative Advantage  
(Muendler 2014/ch. 1 and 2)  
PROBLEM SET 1 OUT

### I. International Product Markets

*Week 1 sections:* Linear Production Possibility Frontier

2. **Thu, March 31:** Comparative Advantage, Trade Flows and the Gains from Trade  
(Muendler 2014/ch. 2)

3. **Tue, April 5:** Competitiveness, Comparative Advantage, and the Terms of Trade  
(Muendler 2014/ch. 3, sections 3.1 and 3.2)

*Week 2 sections:* Standard Production Possibility Frontier

4. **Thu, April 7** Trade in Final Goods and the Distribution of Incomes  
(Muendler 2014/ch. 4)

5. **Tue, April 12:** Offshoring and the Distribution of Incomes  
(Muendler 2014/ch. 6, sections 6.1 and 6.2)

*Week 3 sections:* Problem set 1, questions 1-3

6. **Thu, April 14:** Primary Products and the Distribution of Gains from Trade  
(Muendler 2014/ch. 6, sections 6.1, 6.2 and 6.4)

7. **Tue, April 19:** Instruments of Trade Policy  
(Krugman, Obstfeld, and Melitz 2011/ch. 9)

*Week 4 sections:* Problem set 1, questions 4-6

8. **Thu, April 21:** Costs and Benefits of Trade Restrictions  
(Muendler 2014/ch. 7)

9. **Tue, April 26:** Cases for Trade Interventions  
(Muendler 2014/ch. 7)

*Week 5 sections:* Problem set 1, questions 7-9

10. **Thu, April 28:** Comparative Advantage, Productivity Change, and Growth  
(Muendler 2014/ch. 9)

**Mon, May 2, time TBA:** *Midterm exam review* (room TBA)

**Tue, May 3, 11:00a - 12:20p:** MIDTERM (80 minutes)

covering lectures 1 through 10

PROBLEM SET 1 DUE AT 10:50A

## II. International Capital Markets

*Week 6 sections:* Expected Values and Expected Returns

**11. Thu, May 5:** Political Economy of Open-market Policies and Agreements

(Muendler 2014/ch. 7)

PROBLEM SET 2 OUT

**12. Tue, May 10:** International Capital Markets in Theory and Practice

(Muendler 2014/ch. 14)

*Week 7 sections:* Intertemporal Production Possibility Frontier

**13. Thu, May 12:** The Principle of Comparative Advantage in Capital Markets

**14. Tue, May 17:** International Capital Flows and Growth

(Muendler 2014/ch. 15)

*Week 8 sections:* Problem set 2, questions 1-3

**15. Thu, May 19:** International Capital Flows and Sovereign Risk

(Muendler 2014/ch. 16)

**16. Tue, May 24:** Debt Overhang, Debt Buybacks and Debt Forgiveness

(Muendler 2014/ch. 17)

*Week 9 sections:* Problem set 2, questions 4-6

**17. Thu, May 26:** Debt Sustainability and Financial Crises

**18. Tue, May 31:** Current Trade and Investment Policy Issues

*Week 10 sections:* Problem set 2, questions 7-9

**19. Thu, June 2:** Perspectives on Globalization, Poverty, Inequality and Prosperity

**Fri, June 3, 4:50p:** PROBLEM SET 2 DUE AT 4:50P

**Fri, June 3, time TBA:** *Final exam review* (room TBA)

**Tue, June 7, 11:30a-1:30p:** FINAL EXAM (120 minutes)

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.