

GLOBAL 236: MACROECONOMICS, TRADE AND GLOBAL DEVELOPMENT WINTER 2008

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Content: This course complements *Global 234: Microeconomics for Global Studies*. Together, the courses will survey the economic motivations for the thickening of international markets and the economic impact of this process on people in different parts of the world. Global 236 will begin with an overview of some classic theories of development. This will be followed by an introduction to key macroeconomic variables (output, employment and aggregate prices) in a closed-economy setting, and a basic model of how they are determined. The model will be used to examine the short and medium-run effects of monetary and fiscal policies. This will be followed by consideration of an open economy, international capital markets and some essential results from trade theory. Finally, we will return to questions of growth and development, focusing first on the relationship between trade and industrialization, and second on how market failures and institutional arrangements influence growth and distribution. Most course meetings will also involve discussions of empirical papers on the sources of growth.

Approach: The course will provide an overview of how the macroeconomy works in the short, medium and long run, using textbook presentations and homework assignments. Key debates in development economics will also be surveyed via additional readings and class discussion. Empirical studies will be included in readings and homework assignments to provide a view of how economic enquiry is conducted. The main macroeconomic model presented will be demonstrated through application to current economic events. We will eschew free-wheeling debate, as all of us would benefit from reading/studying more and opining less.

Use of Mathematics: The use of math will be limited to the extent possible, as we wish to focus on social science concepts, not algebra. However, understanding whether numerical evidence is consistent with economic theories requires the use of simple equations and an intuitive understanding of some simple statistical techniques.

Reading:

(1) The Financial Times.

(2) *Economics* by Paul Krugman and Robin Wells (K&W). Be sure to get the US edition: ISBN# 1-57259-150-1. Alternately, you could buy a 365 day subscription to the e-book for \$65 at http://ebooks.bfwpub.com/krugmanwells_econ.php.

(3) *The Elusive Quest for Growth: Economists Adventures and Misadventures in the Tropics* by William Easterly.

(4) The Global 236 reader, available from the Alternative Copy shop.

Requirements/Grading: There will be 8 weekly homework assignments (5% each), 6 weekly current events diary entries (5% each – you choose which weeks to skip), and a review of a research paper (15%). The remaining 15% of your grade will be determined by the quality of class participation.

- Homework assignments may be worked out in groups, but must be individually typed up and turned in. Graphs may be drawn in pencil, but data must be plotted in Excel (or a program of your choice). The objective of homework is to help you to understand the models presented. Assignments are due at the start of class on the dates indicated. Each of you will have one automatic one-week extension to use this quarter. **You will require access to a computer with Excel (or similar software) installed.**
- Current events diaries will reflect on at least three newspaper articles printed during the week prior. Select articles with substantial analytical economic content. A focus on the current economic turmoil associated with balance of payments imbalances, the housing crisis, the credit crunch and possible US recession is recommended, though not strictly required. Each diary entry will be 1½ -2 double-spaced 11-point pages, including article citations. When using articles from newspapers other than the FT or the Economist, please submit copies of the articles as well. Please number your diary entries from 1-6 so that grades may be tracked easily.
- The research paper review should analyze and comment on one study (not a text-book chapter) referenced by the readings studied in this class. It should do so with reference to materials studied in this course, and should not exceed 2 pages of single spaced 11-point font (plus references). Your writing should demonstrate your comprehension of the paper and how it relates to others studied. Your opinions of the work are of secondary importance, but may be included with supporting evidence. You may turn this in at any time between June 1 and June 13.
- Class participation points will be awarded primarily on the basis of preparedness and the direct relevance of your comments to the readings. You are therefore advised to contribute to class discussions in proportion to how well you have prepared.

Tips for success: The reading load is quite heavy because of the number of topics to be covered, and the absence of a final project or exams. I recommend that you work in groups, and that during heavy weeks, you rely on your group-mates to share the deep-reading. This will also encourage you to explain economic arguments to each other, which is beneficial.

COURSE OUTLINE:

	Topic	Readings	HW Due
1 April	<p>Wrapping up G&IS 234 GDP, Labor Productivity, and the Division of Labor – some simple insights on growth and distribution.</p> <p>Detour: Critiquing policies vs. political projects.</p>	<p>Adam Smith. <i>The Wealth of Nations</i> (excerpt) Harry Braverman <i>Labor and Monopoly Capital</i> (excerpt)</p> <p>John Williamson <i>What should the World Bank Think of the Washington Consensus</i></p>	
8 April:	<p>Development & growth – an overview Classic theories of Development</p> <p>The neoclassical framework for thinking about economic growth</p>	<p>Todaro & Smith. <i>Economic Development</i>. Chapter 3.</p> <p>K&W Chapter 25</p>	
15 April:	<p>The Structure of the Macroeconomy:</p> <p>Key terms and Concepts, The Circular Flow Diagram.</p> <p>Discussion: The quality vs. the quantity of investment.</p>	<p>K&W Chapters 23, 24</p> <p>Easterly, Chapter 2. K&W, Chapter 26 Levine 2007.</p>	HW#1: Investment and Growth.
22 April:	<p>A Simple Model of the Macroeconomy Aggregate Supply, Aggregate Demand and Fiscal Policy Money and Monetary Policy</p> <p>Labor markets, unemployment and inflation</p>	<p>K&W Chapter 27, pp. 693-702, 743-48, 750-52, 755-57, 760-64.</p> <p>K&W pp. 769-73, 776-78, 782-89.</p>	HW#2: The structure of the Macroeconomy.
29 April:	<p>Open Economy Macroeconomics - Part I Guest Lecture by Jerry Cohen</p> <p>The Balance of Payments and exchange rate determination</p>	<p>K&W Chapter 35.</p>	HW#3: AS, AD, Fiscal and Monetary Policy.

6 May:	<p>Open Economy Macroeconomics - Part II</p> <p>Topics TBA</p> <p><i>Discussion:</i> The roots of the Asian Crisis, and responses to it</p>	<p>TBA</p> <p>Stiglitz, J. 2003, <i>Globalization and its discontents</i> – Ch. 10.</p>	HW#4: Open Economy Macroeconomics
13 May:	<p>Basic Economic Trade Theory</p> <p>Comparative Advantage, the Gains from Trade and Trade Restrictions.</p> <p><i>Empirical Discussion:</i> Globalization, Poverty and Inequality.</p>	<p>Carbaugh, Ch. 2 Krugman Ch. 17</p> <p>-Winters et al, 2004, “Trade Liberalization and Poverty: the evidence so far”</p>	HW#5: Open Economy Macroeconomics;
20 May:	<p>Trade theory and policy</p> <p>Theories of comparative advantage</p> <p>Trade regulations and industrial policy</p> <p><i>Empirical Discussion:</i> Convergence?</p>	<p>Carbaugh, Ch. 3</p> <p>Carbaugh, Ch. 6</p> <p>Pritchett, 1997, “Divergence – big-time” Easterly, Ch. 3.</p>	HW#6: Trade Theory.
27 May	<p>Trade, Finance and Development – the issues outlined</p> <p><i>Discussion:</i> Aid, Debt and Debt Forgiveness</p>	<p>Todaro & Smith, Ch. 12, 13 Carbaugh, Ch. 7</p> <p>Easterly, chapters 6-7, TBD</p>	HW#7: Trade Theory, plus a look at maturation in S. Korea.
3 June	<p>Market Failure, Inequality, Institutions, and Underdevelopment</p> <p>Imperfect markets: why inequality effects growth.</p> <p>Institutions and Growth</p> <p><i>Empirical Discussion:</i> Human capital, population and growth.</p>	<p>-Ray, <i>Development Economics</i>, Ch. 11.</p> <p>North, D. 1989, “Institutions & Growth: a historical introduction”</p> <p>Easterly: Chapters 4-5, Hanushek & Woessman, 2007, “Education Quality & Growth”</p>	HW#8: Human Capital & Growth.