

GLOBAL 130, WINTER 2011
GLOBAL ECONOMY AND DEVELOPMENT
MONDAY & WEDNESDAY 3:30-4:45 PM
1701 THEATRE & DANCE-WEST

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Office Hours: Monday 1:00-3:00 pm.

Course Description

This is primarily a course about economic development. It starts from the premise that the key struggles faced by developing economies today relate to a lack of resources, a poor distribution of those resources, and domestic/international institutional/policy weaknesses that result in these resources being utilized in sub-optimal ways. It is therefore concerned with questions about:

1. Economic growth: Why are some societies so much poorer than others and what can they do about this?
2. Inequality: Why are resources unevenly distributed, how/why is this changing, and what can/should be done about it?
3. Institutional/policy development: How can the citizens of developing countries coordinate through markets, government and other institutions to better utilize the resources available to them to pursue developmental objectives?

The first set of questions motivates an overview of the evidence on the determinants of economic growth, and the history of attempts to raise growth rates in the developing world. To properly consider the second set of questions, we will study how inequality and poverty are measured and why, before going on to use these measures to examine how inequality has evolved globally, and within countries. To treat the third set of questions, we will review some simple economic models in order to understand what markets are and are not expected to achieve, and some reasons why they can fail. This includes an overview of basic theories of international trade, and environmental regulation. We will emphasize the interplay between these three sets of questions, asking, for example, how the nature of the growth process determines its distributional effects, what the distributional consequences of freeing up markets and trade in the developed and developing world have been, and how shortcomings in the delivery of public services in developing countries might effect both growth and inequality.

Economic globalization involves the liberalization and thickening of international markets for goods, services, labor and capital. These processes present developing economies with new challenges and opportunities. We will look at the reasons why, for all the criticism of liberal economic policies, most countries have opened up to international trade and investment flows. We will cover some basic concepts in international finance – the balance of payments, financial crises (including the current one), how exchange rates are determined, aid-flows, and debt relief.

We approach these issues from theoretical and empirical perspectives, with an emphasis on the latter. We will also emphasize that although it is useful, when seeking a global perspective, to study “the developing world”, the answers to the questions posed vary considerably across economies, and depend upon, amongst other things, history, culture, and geography. Finally, this is a survey course, intended to introduce some of the major policy debates in the developing world, and explain why they are so difficult to resolve - not to study them exhaustively.

Requirements:

Successful completion of Global 2 (or its equivalent) is a pre-requisite for the course. To do well in this course you are expected to attend all the lectures, work diligently on your homework assignments, and do all the readings (roughly 75 pages per week). I will provide leading questions to help you focus on the key points of particular readings.

You are expected to attend sections for this class. This will provide you with an opportunity to engage in group discussion of reading materials and lectures, prepare for exams, and review homework assignments. Section attendance will be taken, and participation in section meetings will count 10% towards your final grade. Note that it is the quality rather than the quantity of contributions that will matter. To ensure useful class discussions and high participation scores, participate more when you have completed your homework and readings and less at other times, and be respectful of your classmates and TAs. Due to overenrollment, you may not attend sections other than your own. You may switch sections, if you can find somebody willing to exchange seats with you. In such a case, the switch must be permanent, and you must inform both your TAs about it.

Sections will be held in computer labs during the weeks of February 2-11. See the course outline for details.

Homework assignments will be due at the start of lecture on the day listed in the course outline (below). Please place your homework in the box corresponding to your discussion section. Homework handed in up to one week late will be graded, but will be docked 40%. Your final homework grade will include the best 7 of your 8 homework assignments.

You are encouraged to solve homework in groups. Two people may even write up their homework assignment together. If you do so, turn in only one copy of the homework assignment with both of your names and section times on it. However, each person or pair turning in a homework assignment is required to write up the solutions independently of other groups. Any obviously identical write-ups will receive zero credit. Keep your graded homework assignments once they have been handed back to you. If you feel that there has been an error in the recording of grades, you will need to produce the graded assignments.

There will be two in-class multiple-choice *midterm exams* (on Monday, 31 January, and Monday, 28 February), and a multiple choice *final exam* on Saturday, March 19, 12-3 pm. The first midterm will include material from lectures until (& including) 26 January. The second midterm will include material from lectures covered during 2 February -23 February - . The final will cover the entire course. All exams will be closed-book tests. ***There will be no early or late examinations, and no make-ups, except (with a doctor's note) for medical reasons or the death or hospitalization of a family member. If you plan to leave on vacation early and cannot take the final on the scheduled date, you should not take the course. Please do not request an exception – it won't be granted!***

Grade Percentages:

Mid-terms: 15% each (30% total)

Final: 25%

Homework: 5% each for the best 7 out of 8 (35% total)

Participation in Section meetings: 10%

Office Hours

Each of the TAs will hold office hours twice weekly, for a total of 6 office hours per week. I will be available to answer questions during my office hours and after lectures. Feel free to attend the office hours of both TAs, irrespective of which section you are in. Given these extensive hours, we will not respond to questions on the material or homework sent via email. Nor will we make appointments outside office hours to meet with students

to discuss course material. However, do seek out an individual appointment if you wish to discuss a private matter.

Course Website and Use of Email:

There is a course website available through Moodle. Access to this website is a requirement for the course. Lecture notes will be posted on the site. I will occasionally also post other materials of interest. Please also check email regularly, as your teaching assistants and I will contact you from time to time by email.

Required Reading

- William Easterly. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. MIT Press. 2002.
- The Global 130 reader is available from the Alternative Copy Shop.

Recommended reading (optional)

The *Financial Times (FT)* is an excellent source on global economy and international political events. Reading the FT daily will enable you to derive far more insight from this class. The Economist magazine is another source for high quality coverage of global economic and political issues. Be warned that both have a definite editorial perspective. Links for obtaining student subscriptions are provided on Gauchospace.

Use of Mathematics

The use of math will be limited to the extent possible. However, economic arguments are well presented and validated using simple mathematics. In addition to performing basic arithmetic and (occasionally) high-school level algebra, you will be required to work with compound interest, interpret graphs and understand the equation for a straight line. We will introduce some basic statistical concepts, which you will use on your homework. Expect lots of graphs. A review of the above mathematical skills will be conducted during section the first week. Do not wait until the eve of your midterm to get up to speed on this. The class materials will not make much sense if you do so.

Tips for success:

Concepts will build on each other. If you don't understand one, the next may not be intelligible. Therefore, study regularly, ask questions in section, and visit your TAs' and my office hours regularly. Remember - we are here to help you understand course material, but not to help you cram for exams. Also – I recommend you study in groups, solve homework assignments in pairs, and teach the answers to each other. Bring printouts of PowerPoint slides to class, and take copious notes on them. Always read before or immediately after lecture and before section. In this way, you will see most material for the third time in section. Three is the magic number – concepts covered won't always make sense the first or second time around.

Special Needs/Language/Personal Situations;

If you have a learning disability or a language barrier that requires special consideration or arrangements, please speak with me and your TA about it. You may use a dictionary during exams. Inform your TA early in the quarter if you are working more than 20 hours per week or are experiencing language or personal problems.

Session	Topic	Reading	Homework Due
Part 1: Introduction			
Mon. 3 Jan. Lecture 1	Introduction. Today's economic landscape and convulsions.	- Council on Foreign Relations "Global Imbalances and the Financial Crisis" - Krugman: "That 30's feeling." - Greenspan: "U.S. debt and the Greek Analogy" (website)	
Wed. 5 Jan. Lecture 2	What is Development? Growth matters, but is insufficient.	-T&S, Chapter 1, pp. 15-32 -T&S, Chapter 2, pp.37-71 -Easterly, Chapter 1. -Pritchett & Summers, 1996, "Wealthier is Healthier."	
<i>Sections: 5-7 Jan.</i>	Math review. "Wealthier is healthier"	-Krugman & Wells (K&W) Ch. 2 appendix.	
Part II: Markets and Trade			
Mon. 10 Jan. Lecture 3	Markets; supply and demand; and efficiency. Externality. Markets and Equity	-K&W, Chapter 3. -K&W, Chapter 19 (Optional) -Sen, 1981, <i>Poverty and Famines</i> , Ch7.	HW # 1: Graphing
Wed. 12 Jan. Lecture 4	Government intervention: Price ceilings, price floors, redistribution and safety nets.	-K&W, Chapter 4 - "Availability of Kerosene to rural households: a case study from India" - Timmer, 2010, "Reflections on Food Crises Past"	
<i>Sections: 12-14 Jan.</i>	Supply & Demand		
Mon. 17 Jan. Lecture 5	Holiday –Martin Luther King Day		.
Wed. 19 Jan. Lecture 6	Interventions in the Market (Concluded)		HW#2: Markets, efficiency and distortions
<i>Sections: 19 -21 Jan.</i>	Review		
Mon. 24 Jan. Lecture 7	-Opportunity Cost: Why wages in the developing world are low. -The Ricardean Model, comparative advantage and gains from trade - Heckscher-Ohlin (the distributional consequences of trade liberalization - in theory).	-K & W, pp. 20-25 - The Economist "The Problem with Made in China" -K&W Ch. 17	
Wed. 26 Jan.	The political economy of Trade - Winners, Losers,	- K&W Ch. 17 (contd.) - The Economist "In the shadow of	

	Politics and the Compensation Principle The WTO – a mainstream economic perspective	prosperity” -WTO. “About the WTO”. -Bowring, 2006, “When Free Trade Sinks into the Noodle Bowl.” International Herald Tribune.	
<i>Sections: 26-28 Jan.</i>	Trade, mid-term review.		
Mon. 31 Jan.	MIDTERM 1		HW#3: Trade Theory.
Part 3: Inequality and Growth			
Wed. 2 Feb. Lecture 8	Poverty, Inequality and Growth.	-T&S Ch. 5 - Chen & Ravallion, 2007, “Absolute Poverty Measures for the Developing World: 1981-2004” -Notes on the Mathematics of Growth and Distribution	
<i>Sections: 2-4 Feb.</i>	Excel Introduction/HW#5 help; Exam postmortem.	<u>Sections meet in computer labs.</u>	
Part 4: Prescriptions for Growth			
Mon. 7 Feb. Lecture 9	Linear Stages Models (Harrod-Domar) Structural Change Dependency Theory	-T&S Ch. 3 -Course note on the Harrod-Domar & Solow Models -Easterly Ch. 2	
Wed. 9 Feb. Lecture 10	The Neoclassical counter-revolution, and the Washington Consensus	-Course note on the Harrod-Domar & Solow Models -Easterly Ch. 3, 11, 12. - Williamson, 1990, “What Washington means by policy reform”	HW#4: Measuring poverty and inequality.
<i>Sections: 9-11 Feb.</i>	Excel – Help with HW#6 Harrod-Domar	<u>Sections meet in computer labs.</u>	
Mon. 14 Feb.	The Financial Sector	-Levine, 1997, “Financial Functions, Institutions and Growth” in <i>Sequencing?</i> Harwood/Smith (eds.) -Appendix to T&S Ch. 5 - A financial crisis primer (TBD)	HW#5: Growth and Investment
Wed. 16 Feb. Lecture 11	The convergence hypothesis The Trade Policy Debate	- Pritchett, 1997, “Divergence, Big Time.” - Sala-i-Martin, 2006, “The World Distribution of Income: Falling Poverty and ...Convergence, Period” T&S, Ch 12 (pp. 607-14), Ch.13	
<i>Sections: 16-18 Feb.</i>	Discussion – Prescriptions for Growth		
Mon 21 Feb. Lecture 11	Presidents Day – No Lecture.		
Wed. 23 Feb. Lecture 12	Human Capital: the missing input?	-Easterly, Ch. 4 -Hanushek & Woessman, 2007, “Education Quality and Economic Growth”	HW #6: The convergence hypothesis.

	Population.	-The PROBE Report, 1998, Ch. 2-4. -Lutz et al., 2010, “The demography of educational attainment and economic growth.” -Easterly, Ch. 5 -Global Trends in Fertility, Contraceptive Use and Unwanted Pregnancies.	
<i>Sections: 23-25 Feb.</i>	Discussion: The convergence hypothesis; Human Capital & Growth.		
Mon. 28 Feb.	MIDTERM 2		
Part 5: The Balance of Payments and Exchange Rates			
Wed. 2 Mar.	The balance of payments and exchange rates 1	Colander, 2008, <i>Economics</i> , chapter 32	HW#7: Human Capital and Growth
<i>Sections: 2-4 Mar.</i>	Midterm Post-mortem The balance of payments		
Mon. 7 Mar.	The balance of payments and exchange rates 2	- Colander, 2008, <i>Economics</i> , chapter 32 - Eichengreen, 2010, “Ireland’s rescue package”	
Wed. 9 Mar.	Aid, debt and debt-forgiveness. Conclusions	- Easterly, Ch. 6-7. - Sachs, 2002, “Resolving the debt crisis of low-income countries.”	HW # 8: Exchange rates.
<i>Sections: 9-11 Mar.</i>	The balance of payments, aid, debt.		