

Economics 161 — Fall 2005

International Integration of Latin American Economies

Latin American Economic Development

October 10, 2005

Instructor: Marc-Andreas Muendler
E-mail: muendler@ucsd.edu
Office: Economics 312
Office hours: TueWed 10:00a - 11:00a
Phone: (858) 534-4799

Classroom: Center Hall, room 115
Section ID: 545105
Class Time: TueThu 08:00a - 09:20a
Class Web Page: econ.ucsd.edu/muendler/teach/05f/161

Teaching Assistant: Jennifer Poole
E-mail: jppoole@weber.ucsd.edu
Office: Econ 120
Office hours: Fri 9:00a - 11:00a

Reader: Bryan Tomlin
E-mail: btomlin@ucsd.edu
Office: Econ 125
Office hours: Thu 10.30a - 11.30a

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 covers trade in agricultural and manufactured goods and regional trade agreements, international capital flows to Latin America, financial vulnerabilities, and policy responses. The course also discusses 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 group representative for a brief in-class statement and subsequent open discussion.

2 Prerequisites

Econ 3, or Econ 1A and 1B.

3 Readings

Lecture notes become available online at econ.ucsd.edu/muendler/teach/05f/161 before each class.

Textbook: Franko (2003)/ch. 3, 4, 7, 8, 9, and 10

Readings: Easterly (2001)/ch. 6,
Fernández-Armesto (2003)/ch. 7,
Pugel (2004)/ch. 3 and 20

The readings are intended to help you review the lecture material. Chapters 4, 7, 8, and 10 of the textbook and the readings are available electronically from UCSD electronic reserves at <http://reserves.ucsd.edu/>. Electronic readings can also be accessed through the class web page. No copyright charges apply for electronic access from campus. Materials are not available in print because of substantial copyright charges for paper copies.

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 international economic integration. You will work in a group of four or five students on *one* of the following eight topics, and will have to argue *either* in favor *or* against the topic:

1. Thu, October 25: **International trade in Latin America**
Reader: Bryan Tomlin
 - (a) The MERCOSUR trade agreement: Deepen *or* Abandon
 - (b) Fair trade: Promote *or* Neglect
 - (c) NAFTA for Mexico: Success *or* Failure
 - (d) CAFTA for Central America: Paramount *or* Negligible
2. Tue, November 22: **International capital markets in Latin America**
Reader: Jennifer Poole
 - (a) IMF and World Bank loans: Expand *or* Cut
 - (b) Private foreign investment: Promote *or* Reduce
 - (c) The privatization of public companies: Pursue *or* Stop
 - (d) Taxes on short-term capital: Blessing *or* Curse

Your goal is to present a compelling case to your classmates.

There will be 16 groups, and each group will select a representative. The first 8 group representatives will present their cases in favor or against the assigned topic during class on Tuesday, October 25 (*International Trade in Latin America*), and the next 8 group representatives will make their cases on Tuesday, November 22 (*International Capital Markets in Latin America*).

Group assignments are determined by random draw. You will be informed in class on October 11 whether you will work with a group to present on October 25, or to present on November

22. If it is your group's draw to present on October 25, you will also be informed of your topic and whether your group argues in favor or against the issue. Students with presentations on November 22 will be informed on November 8 of their group members, their topic and whether they will argue in favor or against the issue.

The group paper should be three to four pages in length, and cover the topic using a young 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 Jennifer Poole and Bryan Tomlin, 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 substantially below the group score.

The final draft of your paper is **due at 4:30pm on the Monday prior to your presentation** (papers for presentation on 10/25 are due on 10/24; papers for presentation on 11/22 are due on 11/21). If your group representative wishes to use electronic resources for his or her presentation, please submit (or e-mail) to Jennifer Poole according files before 5:00pm on the day prior to your presentation (10/24 or 11/21). The group representative's class-room statement should be concise and compelling, it should not exceed four minutes in length and be based on the group paper. There will be one presenter in favor and one against each topic. The group representatives' statements are followed by a twelve-minute discussion in class.

5 Assessment

Your final raw score will be based on your points from

Group paper	50 points	due 10/25 or 11/22
Midterm exam	80 points	11/3
Final exam	120 points	12/6
<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 Sep 27, Oct 27 and Nov 17 (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. We will offer *review sessions* on Tuesday, Nov 1 before the midterm exam and on Wednesday, Nov 30 before the final exam.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in economics classes at UCSD since 2000. You can find this grade distribution at the class web page econ.ucsd.edu/muendler/teach/05f/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 *F* will not depend on the curve but on a minimal performance standard). The overall curve will be shifted in your favor to account for the typical entering student's GPA.

6 Class Schedule

1. **Thu, Sep 22:** The International Integration of Latin American Economies
(Fernández-Armesto 2003/ch. 7)

I. Trade Integration of Latin American Economies

2. **Tue, Sep 27:** Import Substitution Industrialization
(Franko 2003/ch. 3)
REVIEW SHEET I OUT
3. **Thu, Sep 29:** The Principle of Comparative Advantage
(Pugel 2004/ch. 3)
4. **Tue, Oct 4:** Competition and Comparative Advantage
(Franko 2003/ch. 9)
5. **Thu, Oct 6:** Trade and Factor Prices When Endowments Differ
(Pugel 2004/ch. 3)
6. **Tue, Oct 11:** Trade in Primary and Agricultural Merchandize
(Franko 2003/ch. 10)
GROUP ASSIGNMENTS. TOPIC ASSIGNMENTS for
Presentations on Oct 25 (*International Trade*)
7. **Thu, Oct 13:** Cases for Trade Intervention
(Pugel 2004/ch. 3; Franko 2003/ch. 3, 9)
8. **Tue, Oct 18:** Comparative Advantage and Productivity Change
(Franko 2003/ch. 9)
9. **Thu, Oct 20:** Free Trade in the Americas
(Franko 2003/ch. 8)

Tue, Oct 25: PRESENTATIONS: INTERNATIONAL TRADE

II. International Capital Flows to Latin America

10. **Thu, Oct 27:** International Lending and Investment in Latin America
(Franko 2003/ch. 4)
REVIEW SHEET II OUT
 11. **Tue, Nov 1:** The Principle of Comparative Advantage for Capital
(Pugel 2004/ch. 20)
- Tue, Nov 1:** REVIEW SESSION FOR MIDTERM EXAM
- Thu, Nov 3:** MIDTERM EXAM
12. **Tue, Nov 8:** Foreign Direct Investment in Latin America
(Franko 2003/ch. 7)
TOPIC ASSIGNMENTS for Presentations on Nov 22 (*International Capital Markets*)

- 13. Thu, Nov 10:** International Capital Flows and Growth
(Easterly 2001/ch. 6)
- 14. Tue, Nov 15:** International Capital Flows and Sovereign Risk
(Pugel 2004/ch. 20)

III. Financial Crises and Policy Responses in Latin America

- 15. Thu, Nov 17:** The Debt Crisis of the 1980s and Debt Restructuring
(Franko 2003/ch. 4; Pugel 2004/ch. 20)
REVIEW SHEET III OUT
- Tue, Nov 22:** PRESENTATIONS: INTERNATIONAL CAPITAL MARKETS
No class on Thu, Nov 24 (Thanksgiving Holiday)
- 16. Tue, Nov 29:** Debt Overhang, Debt Buybacks and Debt Forgiveness
(Pugel 2004/ch. 20)
- Wed, Nov 30** REVIEW SESSION FOR FINAL EXAM
- 17. Thu, Dec 1:** International Financial Crises
(Franko 2003/ch. 7; Pugel 2004/ch. 20)
- Tue, Dec 6 (Finals Week): 8:00a - 10:00a** FINAL EXAM

References

- EASTERLY, W. (2001): *The elusive quest for growth: Economists' adventures and misadventures in the tropics*. MIT Press, Cambridge and London, Chapter 6, pp. 101-20 ("The Loans that Were, The Growth That Wasn't").
- FERNÁNDEZ-ARMESTO, F. (2003): *The Americas: A hemispheric history*, Modern library chronicles. Random House, New York, Chapter 7, pp. 189-206 ("Restrospect and Prospect: Gringos and Go-Getters").
- FRANKO, P. (2003): *The puzzle of Latin American economic development*. Rowman and Littlefield, Lanham, Maryland, 2nd edn.
- 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").