

Economics 161 — Spring 2007

International Integration of Latin American Economies

Latin American Economic Development

March 26, 2007

Instructor:	Marc-Andreas Muendler	
Office:	Economics 312	
Office hours:	Wed 10:00am - 11:00am, Thu 11:30am - 12:30pm	
Phone:	(858) 534-4799	
E-mail:	muendler@ucsd.edu	
Classroom:	Center Hall 109	
Class Time:	TuTh 9:30am - 10:50am	
Class Web Page:	econ.ucsd.edu/muendler/teach/07s/161	
Section ID	591700	
Teaching Assistants:	Chris Nekarda	Cindy Vojtech
E-mail:	cnekarda@ucsd.edu	cvojtech@ucsd.edu
Office:	Econ 117	Sequoyah Hall 234
Office hours:	Thu 2:00pm - 3:20pm	by appointment (e-mail)

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/07s/161 before each class.

Textbook: Franko (2007) or 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 lecture material. Chapters 4, 7, 8, and 10 of the textbook's second edition (Franko 2003) 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.

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 seven students on *one* of the following eight topics, and will have to argue *either* in favor *or* against the topic:

1. Thu, May 3: **International trade in Latin America**
Reader: Chris Nekarda
 - (a) The MERCOSUR trade agreement: Deepen *or* Expand
 - (b) Fair trade: Promote *or* Neglect
 - (c) NAFTA for Mexico: Success *or* Failure
 - (d) CAFTA for Central America: Paramount *or* Negligible
2. Thu, May 31: **International capital markets in Latin America**
Reader: Chris Nekarda
 - (a) IMF and World Bank loans: Expand *or* Cut
 - (b) Private foreign investment: Promote *or* Reduce
 - (c) 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 Thu, May 3 (*International Trade in Latin America*), and the next 8 group representatives will make their cases on Thu, May 31 (*International Capital Markets in Latin America*).

Group assignments are determined by random draw. You will be informed on Thu, April 19 whether you will work with a group to present on Thu, May 3 or to present on Thu, May 31. If it is your group's draw to present on May 3, you will also be informed of your topic and whether your group argues in favor or against the issue. Students with presentations on May 31 will be informed on Thu, May 17 of their group members, their topic and whether they will argue in favor or against the issue.

Class-wide e-mails will be sent on Thu, April 19 and on Thu, May 17 to all enrolled students, showing groups and topic assignments. In addition, password-protected lists with groups and

topic assignments will be posted on the class web page on April 19 and May 17. It is your responsibility to inform your group mates if your working e-mail address is not the one listed.

The group paper should be three to four pages in length, and cover the topic using a 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 Chris Nekarda 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 of zero or substantially below the group score.

The final draft of your paper is **due at 4:30pm on the Wednesday prior to your presentation** in Chris Nekarda's office, Econ 117 (papers for presentation on May 3 are due on Wed, May 2 at 4:30pm, papers for presentation on May 31 are due on Wed, May 30 at 4:30pm). If your group representative wishes to use electronic resources for his or her presentation, please submit (or e-mail) to Chris Nekarda according files before 5:00pm on the day prior to your presentation (May 2 or May 30). 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 5/2 or 5/30
Midterm exam	80 points	5/15
Final exam	120 points	6/13
<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 April 5, May 8 and May 29 (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 Mon, May 14 before the midterm exam and on Thu, June 7 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/07s/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).

6 Class Schedule

1. **Tue, April 3:** The International Integration of Latin American Economies
(Fernández-Armesto 2003/ch. 7)

I. Trade Integration of Latin American Economies

2. **Thu, April 5:** Import Substitution Industrialization
(Franko 2007/ch. 3)
REVIEW SHEET I OUT
3. **Tue, April 10:** The Principle of Comparative Advantage
(Pugel 2004/ch. 3)
4. **Thu, April 12:** Competition and Comparative Advantage
(Franko 2007/ch. 9)
5. **Tue, April 17:** Trade and Factor Prices When Endowments Differ
(Pugel 2004/ch. 3)
6. **Thu, April 19:** Trade in Primary and Agricultural Merchandize
(Franko 2007/ch. 10)
GROUP ASSIGNMENTS. TOPIC ASSIGNMENTS for
Presentations on May 3 (*International Trade*)
7. **Tue, April 24:** Cases for Trade Intervention
(Pugel 2004/ch. 3; Franko 2007/ch. 3, 9)
8. **Thu, April 26:** Comparative Advantage and Productivity Change
(Franko 2007/ch. 9)
9. **Tue, May 1:** Free Trade in the Americas
(Franko 2007/ch. 8)

Thu, May 3: PRESENTATIONS: INTERNATIONAL TRADE

II. International Capital Flows to Latin America

10. **Tue, May 8:** International Lending and Investment in Latin America
(Franko 2007/ch. 4)
REVIEW SHEET II OUT
 11. **Thu, May 10:** The Principle of Comparative Advantage in Capital Markets
(Pugel 2004/ch. 20)
- Mon, May 14:** REVIEW SESSION FOR MIDTERM EXAM (Chris Nekarda)
- Tue, May 15:** MIDTERM EXAM
12. **Thu, May 17:** Foreign Direct Investment in Latin America
(Franko 2007/ch. 7)
TOPIC ASSIGNMENTS for Presentations on May 31 (*International Capital Markets*)

- 13. Tue, May 22:** International Capital Flows and Growth
(Easterly 2001/ch. 6)
- 14. Thu, May 24:** International Capital Flows and Sovereign Risk
(Pugel 2004/ch. 20)

III. Financial Crises and Policy Responses in Latin America

- 15. Tue, May 29:** The Debt Crisis of the 1980s and Debt Restructuring
(Franko 2007/ch. 4; Pugel 2004/ch. 20)
REVIEW SHEET III OUT
- Thu, May 31:** PRESENTATIONS: INTERNATIONAL CAPITAL MARKETS
- 16. Tue, June 5:** Debt Overhang, Debt Buybacks and Debt Forgiveness
(Pugel 2004/ch. 20)
- 17. Thu, June 7:** International Financial Crises
(Franko 2007/ch. 7; Pugel 2004/ch. 20)
- Thu, June 7:** REVIEW SESSION FOR FINAL EXAM (Marc Muendler)
- Wed, June 13 (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.
- (2007): *The puzzle of Latin American economic development*. Rowman and Littlefield, Lanham, Maryland, 3rd 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").