

Economics 161 — Spring 2004

## Latin American Economic Development

### *The International Integration of Latin American Economies*

March 9, 2004

Instructor:	Marc-Andreas Muendler
Office:	Economics 312
Office hours:	TuTh 3:00pm - 4:00pm
Phone:	(858) 534-4799
E-mail:	muendler@ucsd.edu
Teaching Assistant(s):	TBA
Classroom:	Warren Lecture Hall, room 2205
Class Time:	TuTh 12:30pm - 1:50pm
Class Web Page:	<a href="http://econ.ucsd.edu/muendler/teach/04s/161">econ.ucsd.edu/muendler/teach/04s/161</a>

## 1 Course Objectives

This course examines the integration of Latin American and Caribbean countries 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. In assessing the recent and historic experience of Latin American and Caribbean economies, the course also discusses economic concepts to understand the suitability of specific trade regimes, conditions for international investment and levels of foreign debt.

To offer a most rewarding experience for students from diverse academic backgrounds, economists and non-economists are asked to join work groups and prepare a brief in-class presentation accompanied by a short paper as part of the course requirements.

## 2 Prerequisites

Economics 1A or 2A, 1B or 2B, and 1C.

## 3 Readings

Lecture notes become available online at [econ.ucsd.edu/muendler/teach/04s/161](http://econ.ucsd.edu/muendler/teach/04s/161) before each class.

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



**Readings:** Easterly (2001)/ch. 6, Eichengreen (2001), Pugel (2004)/ch. 3 and 20, Thorp (1998)/ch. 8

The readings are intended to help you review the lecture material. The readings beyond the main textbook (articles and select textbook chapters) are available as custom materials from AS Soft Reserves (one volume, copyright fees apply). Several readings can also be accessed through the class web page (no copyright charges on campus; see link above) and the UCSD electronic library.

#### **4 Group paper and short in-class presentation**

To instill interaction between students from diverse academic backgrounds, part of your course work will be dedicated to a group paper and a 15-minute in-class presentation. The objective is to expose students from different backgrounds to each others' views on a select topic that is relevant to the class as a whole.

You will work in a group of five to six students on one of the following twelve topics:

1. Thu, April 22: **Trade integration**
  - (a) Trade integration and trade diversion under MERCOSUR
  - (b) The effects of NAFTA in Mexico
  - (c) The pros and cons of fair trade
  - (d) The significance of the Doha round for Latin America
2. Tue, May 11: **International capital flows**
  - (a) The IMF and the World Bank as foreign lenders in Latin America
  - (b) The automobile industry in Latin America
  - (c) The privatization of public companies in Latin America
  - (d) Returns to US investment funds in emerging markets
3. Tue, June 1: **Financial crises and policy responses**
  - (a) Mexico's Tequila crisis
  - (b) Chile's taxes on short-term capital flows
  - (c) Argentina's recent financial crisis
  - (d) Ecuador's current dollarization

You are expected to contribute to the group work on your project in a fair manner. The group paper should be five to ten 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 or quantitative tables. An initial draft of the paper is due at 12:30pm in the class immediately preceding the presentation (4/20, 5/6, 5/27). The 15-minute classroom presentation should be based on the draft and give a preview of your final paper. Each presentation is followed by a 5-minute discussion in class. A later presentation date provides you with more time for preparation, whereas an early presentation date gives you more time to incorporate feedback from your classmates into your final paper.

You may state your preferences for three topics on three different dates by Tue, April 6. Examples of permissible preferences are "1(c), 2(b), 3(d)" or "1(a), 2(a), 3(a)." I will collect your written preferences on April 6 in class at 12.30pm. Non-economists and economists will then be mixed and matched to twelve groups of five to six students so that one of your preferences is met if possible. If too many students opt for the same preference, they will randomly be assigned a topic. I will announce your assignment on Thu, April 8.

## 5 Assessment

Your final raw score will be based on your points from

Presentation (based on group paper draft):	50 points	4/22, 5/11, or 6/1
Final group paper:	70 points	6/3
Final exam:	120 points	6/8
<i>Total:</i>	<i>240 points</i>	

The scores on the presentation and the final paper will be the same for all members of a student group. Together, the scores on the presentation and the final paper make up for 120 points, half of your overall raw score. The other half is based on a final exam. The final exam will contain twelve (12) questions, ten minutes in length each. Four questions will be dedicated to each of the three parts of the course (1. Trade integration, 2. International capital flows, and 3. Financial crises and policy responses). Throughout the quarter, you will receive three review sheets (one for each part of the course) that contain questions similar to the questions on the final exam. The review sheets help you prepare for the final exam.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in economics classes at UCSD. You can find this grade distribution at [econ.ucsd.edu/muendler/teach/04s/161](http://econ.ucsd.edu/muendler/teach/04s/161). So, the difficulty of the final exam will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. The overall curve will be shifted in your favor to account for the typical student's GPA.



## 6 Class Schedule

1. **Tue, March 30:** Introduction: The International Integration of Latin American Economies  
(Thorp 1998/ch. 8)

### I. Trade Integration in Latin America

2. **Thu, April 1:** Import Substitution Industrialization  
(Franko 2003/ch. 3)
3. **Tue, April 6:** The Principle of Comparative Advantage  
(Pugel 2004/ch. 3)  
SUBMISSION OF PAPER/PRESENTATION PREFERENCES BY 12:30PM
4. **Thu, April 8:** Competition and Comparative Advantage  
(Franko 2003/ch. 9)  
ASSIGNMENT OF PAPER/PRESENTATION TOPIC
5. **Tue, April 13:** Gains from Trade When Productivity or Endowments Differ  
(Pugel 2004/ch. 3)
6. **Thu, April 15:** Trade in Agricultural Merchandize  
(Franko 2003/ch. 10)
5. **Tue, April 13:** Cases for Temporary Trade Restrictions  
(Pugel 2004/ch. 3; Franko 2003/ch. 3)
7. **Tue, April 20:** Free Trade in the Americas  
(Franko 2003/ch. 8)  
DRAFT OF STUDENT PAPERS FOR 4/22 PRESENTATIONS DUE BY 12:30PM
- Thu, April 22:** STUDENT PRESENTATIONS: Trade integration and trade diversion under MERCOSUR, The effects of NAFTA in Mexico, The pros and cons of fair trade, The significance of the Doha round for Latin America  
REVIEW SHEET I OUT

### II. International Capital Flows to Latin America

8. **Tue, April 27:** International Lending and Investment in Latin America  
(Easterly 2001/ch. 6; Franko 2003/ch. 4)
9. **Thu, April 29:** International Lending and Investment: Sketches of Theories  
(Pugel 2004/ch. 20)
10. **Tue, May 4:** Foreign Direct Investment in Latin America  
(Franko 2003/ch. 7)



11. **Thu, May 6:** International Capital Flows and Sovereign Risk  
(Pugel 2004/ch. 20)  
DRAFT OF STUDENT PAPERS FOR 5/11 PRESENTATIONS DUE BY 12:30PM

**Tue, May 11:** STUDENT PRESENTATIONS: The IMF and the World Bank as foreign lenders, The automobile industry in Latin America, The privatization of public companies in Latin America, Returns to US investment funds in emerging markets  
REVIEW SHEET II OUT

### III. Financial Crises and Policy Responses in Latin America

12. **Thu, May 13:** The Debt Crisis of the 1980s  
(Franko 2003/ch. 4)
13. **Tue, May 18:** Debt Restructuring  
(Franko 2003/ch. 4; Pugel 2004/ch. 20)
14. **Thu, May 20:** Debt Overhang, Debt Buybacks and Debt Forgiveness  
(Pugel 2004/ch. 20)
15. **Tue, May 22:** International Financial Crises  
(Franko 2003/ch. 7; Pugel 2004/ch. 20)
16. **Thu, May 27:** Dollarization  
(Eichengreen 2001)  
DRAFT OF STUDENT PAPERS FOR 6/1 PRESENTATIONS DUE BY 12:30PM
- Tue, June 1:** STUDENT PRESENTATIONS: Mexico's Tequila crisis, Chile's taxes on short-term capital flows, Argentina's recent financial crisis, Ecuador's current dollarization  
REVIEW SHEET III OUT
17. **Thu, June 3:** Review and Reflections  
GROUP PAPER DUE AT 12:30PM
- Tue, June 8 (Finals Week): 11:30am - 2:30pm** FINAL EXAM  
covering lectures 1 through 17; Franko (2003)/3, 4, 7, 8, 9, 10; Pugel (2004)/3, 20; Easterly (2001)/6, Eichengreen (2001), Thorp (1998)/8

### 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").
- EICHENGREEN, B. (2001): "What Problems Can Dollarization Solve?," *Journal of Policy Modeling*, 23(3), 267-77.



- 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").
- THORP, R. (1998): *Progress, poverty and exclusion: An economic history of Latin America in the twentieth century*. Inter-American Development Bank, Washington, DC, Chapter 8, pp. 241-73 ("Performance and Policymaking under the New Paradigm").