

The Economics of Mexico

University of California at San Diego

Economics 162 –Spring 2005

MWF 9 – 9:50 am

Instructor

Prof. Pablo Cotler

pcotler@ucsd.edu

Center for US-Mexican Studies, Rm. 114

Wednesday, 11:00 – 12:30 pm

Teaching Assistant

Carlos Capistran

ccapistr@ucsd.edu

Economics Building Rm. 116

Thursday, 9:30 – 11:00 am

I. Description

As in many other Latin American countries, Mexico started to introduce market-friendly reforms by the end of the 1980s. This course aims at understanding the economic situation prior to such introduction and what have been the major impacts of such reforms. To comprehend the scope of such impacts we will study –among others- the evolution of GDP growth and trade, income distribution and poverty levels. In so doing, we will analyze what has happened in the labor market, in the financial sector and why there is a need for institutional reforms.

II. Readings

We will rely mostly on papers and chapters of several books. Since we want to talk about the impact of different policy reforms, most of the bibliography will be empirical. While econometrics is not a prerequisite it will certainly help to at least remember your basic statistics! All readings are required.

III. Grading

Will consist of quizzes on readings and one final exam. Quizzes will be held in class and there will be one for each topic covered. Your final score will be based as follows: quiz average: 60%; final exam: 40%.

IV. Plan of the Course

A. Stabilizing Growth and its Aftermath

- 1) Vernon, R. (1963), The Dilemma of Mexico's Development. Harvard University Press. **Read:** Chapter 4, pp. 88 – 122.
- 2) Lustig, N. (1992), Mexico: The Remaking of the Economy. The Brookings Institution, USA. **Read:** chapter 1, pp. 14 - 27.
- 3) Franko, P. (1999), The Puzzle of Latin American Economic Development. Rowman & Littlefield Publishers Inc., USA. **Read:** Chapter 3, pp.51 – 77 and Chapter 4, pp. 79-109.
- 4) Taylor, A. (1998), “On the Costs of Inward-Looking Development. Price Distortions, Growth and Divergence in Latin America”. Journal of Economic History Vol. 58(1), March, pp. 1 - 28.

B. The Market Reform Era

- 1) Williamson, J. (1995), “What Washington means by policy reform” in The International Political economy and the Developing Countries, Vol. 1, Haggard, S. (editor), Elgar Publishing Limited, England. **Read:** Chapter 18, pp. 514 - 528.
- 2) Krueger, A. (1998), “Why Trade Liberalization is good for Growth”. The Economic Journal. Vol. 108, September, pp. 1513 - 1522.
- 3) Edwards, S. (1995), Crisis and Reform in Latin America, The World Bank, USA. **Read:** chapter 3, pp. 41 - 65.
- 4) Aspe, P. (1993), Economic Transformation. The Mexican Way. The MIT Press, USA. **Read:** Chapter 1, pp. 1 - 60.

C. Some Results of the *Market Reforms Era*

C1. On Growth and Trade

- 1) Dornbusch, R. and A. Werner (1994), “Mexico: Stabilization, Reform and No Growth”. Brookings Papers on Economic Activity, No. 1. **Read:** pp. 253 – 266 and 283 - 287.
- 2) Easterly, W. et al. (1997), “Has Latin America’s post reform growth been disappointing?” Journal of International Economics, Vol. 43, pp. 287 - 304.
- 3) Gould, D. (1998), “Has NAFTA Changed North American Trade?” Economic Review, First Quarter, Federal Reserve Bank of Dallas, pp. 12 - 23.

C2. On The Financial Sector

- 1) Gruben, W. y R. McComb (1997), “Liberalization, Privatization and Crash: Mexico Banking System in the 1990’s”. Economic Review, First Quarter. Federal Reserve Bank of Dallas, pp. 21 -30.
- 2) Krugman, P. (1995), “Dutch Tulips and Emerging Markets”. Foreign Affairs (Council on Foreign Relations), Vol. 74(4), July, pp. 28 - 44.
- 3) Espinoza, M. and T. Sinha (2000), “A Primer and Assessment of Social Security Reform in Mexico”. Economic Review, First Quarter. Federal Reserve Bank of Atlanta, pp. 1 - 23.
- 4) Orozco, M. (2002), “Globalization and Migration: The Impact of Family Remittances in Latin America”. Latin American Politics and Society, Vol. 44(2), pp. 41 - 66.

C3. On Poverty and Inequality: Labor Markets and Education

- 1) Hanson, G. and A. Harrison (1999), “Trade Liberalization and Wage Inequality in Mexico”. Industrial and Labor Relations Review, Vol. 52(2), January, pp. 271 - 288.
- 2) Esquivel, G. and Rodriguez, J. (2003), “Technology, trade and wage inequality in Mexico before and after NAFTA”. Journal of Development Economics, Vol. 72, pp. 543 - 565.

3) Birdsall, N., Ross, D. and R. Sabot (1995), "Inequality and Growth Reconsidered: Lessons from East Asia". World Bank Economic Review Vol. 9(3). **Read:** pp. 477 - 508.

4) Birdsall, N. and J. Londoño (1997), "Asset Inequality Matters An Assessment of the World Bank's Approach to Poverty Reduction". American Economic Review, Vol. 87(2), pp. 32 - 37.

5) Lopez, G. (2000) "The Distribution of Mexico's Public Spending on Education". The World Bank, Working Paper No. 2404. (<http://econddev.forumone.com/staff/22724/>)

D. Economics and Institutions

1) Sokoloff, K. and S. Engerman (2000), "Institutions, factor Endowments and paths of Development in the New World". Journal of Economic Perspectives, 14(3), summer, pp. 217 - 232.

2) Gil Diaz, F. (2003), "Don't Blame Our Failures on Reforms that have Not Taken Place". Fraser Forum, June, pp. 7 - 11.
(www.fraserinstitute.ca/shared/readmore.asp?sNav=pb&id=540).

3) Easterly, W. and R. Levine (2003), "Tropics, germs and crops: how endowments influence economic development". Journal of Monetary Economics 50(1), pp. 3 - 39.

4) Laeven, L. and C. Woodruff (2004), "The Quality of the legal System, Firm Ownership and Firm Size". World Bank Working Paper No. 3246. (www.econ.worldbank.org/resource.php).

E. Growth and Development

1) Middlebrook, K. and E. Zepeda, "On the Political Economy of Mexican Development" in K. Middlebrook and E. Zepeda (eds.) Confronting Development. Assessing Mexico's Economic and Social Policy Challenges, Center for U.S.-Mexican Studies, University of California at San Diego. **Read:** pp. 577 - 595.

2) Lustig, N. (2001), "Life is not easy: Mexico's Quest for Stability and Growth". Journal of Economic Perspectives, Vol. 15(1), Winter, pp.85-106.

3) Gavin, M., R. Hausman, R. Perotti and E. Talvi (1996), "Managing Fiscal Policy in Latin America and the Caribbean: Volatility, Procyclicality and Limited Creditworthiness". Inter American Development Bank, Research Department, Working Paper No. 326. (www.iadb.org/res/)