

The Growth and Development of Nations in the Global Economy

Tuesday/Thursday 11:00- 12:15, Russell Lab 184

Economic historian Richard Easterlin writes that:

Most people today are better fed, clothed and housed than their predecessors two centuries ago. They are healthier, live longer, and are better educated. Women's lives are less centered on reproduction and political democracy has gained a foothold ... [t]he last 200 years has shown the greatest advance in the conditions of the world's population ever achieved in such a brief span of time.

"The Worldwide Standard of Living since 1800," *Journal of Economic Perspectives* (2000).

Despite these achievements, poverty and income inequality persist in many parts of the world. Controversy about free trade, the new global economy, and for whom these things work, has perhaps never been higher.

Understanding these controversies requires delving into key questions about the market forces, institutions, and policies that shape the growth and development of nations in the global economy. After a brief survey of the global economic landscape and the patterns of growth and living standards found within it, this course first explores the basic economics of international trade. Taking technology and nations' endowments of skills, capital and people as given, the standard comparative advantage argument of economics suggests that trade between poor and rich countries can be mutually beneficial. We explore the logic of comparative advantage and several critiques on how it shapes growth and development. We also consider how continuing barriers to trade, such as patent rules, come at the expense of some of the poorest countries in the world.

The second part of the course examines the forces and institutions that shape the endowments of people, skill, capital and technology that basic trade theory takes as given. Drawing on economic growth theory, this part of the course will explore the degree to which living standards are converging between nations in our world and how key endowments and institutions shape those outcomes. In the third part of the course, we delve deeply into how technology, inequality, and institutions interact to shape growth and development outcomes, and revisit the nature and desirability of free trade and other policies once we take into account these other factors. Finally, we take a look at the current US economy.

This course uses economic theory, computer simulations, and historical data to better understand the factors that shape the wealth and well-being of nations and people in the world around us. We will connect the conceptual and theoretical discussion with real experience drawn from around the globe. This course is also designed to impart a basic statistical literacy. Problem sets will be used to develop and put into immediate practice statistical concepts by using real data to examine substantive issues under discussion in the lectures and readings. Students completing this course will have an understanding of basic statistics, a working knowledge of available data on the global economy, and the ability to use spreadsheet software packages. Discussion sections will be devoted primarily to computer, statistical and software issues.

The prerequisite for the course is an introductory economics course.

Required Texts

The following required books are available for purchase at University Bookstore:

Economic Growth, David Weil, Addison Wesley (2013). Readings from this book are noted as **WEIL** on the syllabus below.

Understanding Global Trade, Elhanan Helpman, Harvard University Press (2011). Readings from this book are noted as **HELPMAN** on the syllabus below.

Trade and Poverty: When the Third World Fell Behind, Jeffrey G. Williamson, MIT Press (2011). Readings from this book are noted as **WILLIAMSON** on the syllabus below.

Please note it is *not* necessary to buy the most recent version of any of these books. Additional required readings will be made available on the course web site at Learn@UW.

Top Hat

We will be using the Top Hat (www.tophat.com) classroom response system in class. You will be able to submit answers to in-class questions using Apple or Android smartphones and tablets, laptops, or through text message.

You can visit the Top Hat Overview (<https://success.tophat.com/s/article/Student-Top-Hat-Overview-and-Getting-Started-Guide>) within the Top Hat Success Center which outlines how you will register for a Top Hat account, as well as providing a brief overview to get you up and running on the system.

An email invitation will be sent to you by email, but if don't receive this email, you can register by simply visiting our course website: <https://learnuw.wisc.edu/toolbox/tophat.html>

Note: our Course Join Code is: **059754**

Top Hat will require a paid subscription, and a full breakdown of all subscription options available can be found here: www.tophat.com/pricing.

Should you require assistance with Top Hat at any time, due to the fact that they require specific user information to troubleshoot these issues, please contact their Support Team directly by way of email (support@tophat.com), the in app support button, or by calling 1-888-663-5491.

Course Web Page

Lecture notes, problem sets, data sets, answer sheets and other material for the course will be posted on the course web page at Learn@UW: <https://canvas.wisc.edu/courses/48637>

Office Hours and Contact Information

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Course Requirements

The workload for this course will be heaviest in the first part of the semester. Problem sets will comprise a significant part of your grade. You are welcome to discuss the problems sets with each other and to work together on spreadsheet and data analysis. However, **the written work you hand in must be yours alone**. Take your computer results home (or off to a corner) and write up your own answers. Credit will not be given for problem sets that are multiple printings of the same answers.

There will be two exams. The first will be a conventional, in-class mid-term. The second will also be in-class exam given the last day of class. Finally, you will also be asked to write three short (1 to 2 page) reaction papers in response to assigned articles that discuss the globalization controversy. The goal of these papers is to engage you in the material and have you prepared for in-class discussion of the issues.

Many classes are “back loaded” with many projects and tests towards the end of the semester. For that reason, this class is “frontloaded”: three fourths of homework come before the first midterm and all of it is done by Thanksgiving. The specific point breakdown for the course is as follows:

- 4 Problem Sets (equally weighted—combined will be worth 40% of total grade)
- 3 Reaction Papers (worth 15% of total grade)
- 2 Exams (equally weighted—combined will be worth 40% of total grade)
- Participation & attendance in class and section is worth 5% of your grade

The grading scheme will be as follows (out of 100):

A: 92-100, AB: 86-92, B: 80-86, BC: 74-80, C: 68-74, D: 62-68, F: 0-62.

Problem Sets and Reaction Papers will NOT be accepted after the due date.

Assignment, Review Session and Exam Schedule

<i>Assignment</i>	<i>Date Available</i>	<i>Date Due</i>
Reaction Paper 1: Is Globalization Good?	Sept 7	Sept 19
Problem Set 1: Benefits from Trade #1	Sept 14	Sept 28
Reaction Paper 2: North American Free Trade Agreement (NAFTA)	Sept 28	Oct 5
Problem Set 2: Economic Growth: Unconditional Convergence	Sept 28	Oct 12
Problem Set 3: Economic Growth: Conditional Convergence	Oct 12	Oct 24
EXAM 1 (in class)	Nov 2	
Problem Set 4: Benefits from Trade #2	Nov 2	Nov 16
Reaction Paper 3: Inequality and growth	Nov 16	Nov 30
EXAM 2 (in class)	Dec 12	

Discussion Sections

Discussion Sections will be held weekly on Fridays. Most discussion sections will be keyed to particular problem sets. In addition, most will also be dedicated to teaching basic tools of computer and statistical tools of analysis needed for the different problem sets. The discussion schedule and topics are as follows:

<i>Dates</i>	<i>Topics</i>
Week 1	Functions & Intro. to Excel and Solver
Week 2	Problem set 1& Benefits from Trade
Week 3	Visual Representation of Distributions
Week 4	Representing Distributions with Numbers (central tendency)
Week 5	Problem Set 2 & Representing Distributions with Numbers (dispersion)
Week 6	Problem Set 3 & Time plots and conditional analysis
Week 7	Problem Set 3 & Economic Growth
Week 8	Exam 1 Review
Week 9	Problem Set 4 & Benefits from Trade
Week 10	Problem Set 4 & Benefits from Trade
Week 11	Inequality distributions
Week 12	NO SECTION (University Holiday)
Week 13	Inequality and growth
Week 14	Exam 2 Review

Syllabus and Course Schedule

I. INTRODUCTION TO THE GROWTH AND WEALTH OF NATIONS IN THE GLOBAL ECONOMY

WEIL, Chapter 1
HELPMAN, Chapter 1
WILLIAMSON, Chapter 1

II. LIBERALIZATION & TRADE UNDER COMPARATIVE ADVANTAGE

A. *The Basics of Comparative Advantage*

HELPMAN, Chapter 2, pp. 11-13.

REACTION PAPER 1 DUE SEPTEMBER 19 (in class): “Is Globalization Good?”

B. *Free Trade and Comparative Advantage*

HELPMAN, Chapter 2, pp. 28-45.

PROBLEM SET 1 DUE SEPTEMBER 28: “Benefit from Trade #1”.

III. COMPARATIVE ADVANTAGE: CRITIQUES

A. *Trade Inequality and Development*

HELPMAN, Chapter 3
WEIL, Chapter 11

B. *The Natural Resource Curse*

WILLIAMSON, Chapter 4 (skim Chapter 5 as supplement).
WEIL, Chapter 15.3.

REACTION PAPER 2 DUE OCTOBER 5: “North American Free Trade Agreement (NAFTA)”.

IV. OBJECT GAPS: GROWTH THROUGH FACTOR ACCUMULATION

A. *Harrod-Domar Model and Pure Physical Capital*

WEIL: Chapters 2.

B. *Physical Capital (Exogenous Simple Solow Model)*

WEIL: Chapter 3.

PROBLEM SET 2 DUE OCT 12: “Economic Growth—Unconditional Convergence”.

C. *Human Capital (Health and Education)*

WEIL: Chapter 6, 7.3.

V. EXCHANGE GAPS: TRADE AND GROWTH

WEIL: Chapter 11.

PROBLEM SET 3 DUE OCTOBER 24: “Economic Growth—Conditional Convergence”.

****EXAM 1: NOVEMBER 2, IN-CLASS****

VI. INCREASING RETURNS AND ECONOMIC GROWTH

A. *Exogenous Technology and Technology Transfer*

WEIL: Chapter 7.1 and 7.4, Chapter 8, Chapter 9.1, Chapter 15.1.
HELPMAN, Chapter 6.

B. *Increasing Returns and Endogenous Growth*

WEIL: Chapter 9.3.

C. *Scale Economies, Endogenous Growth and the Dynamics of Comparative Advantage*

PROBLEM SET 4 DUE NOVEMBER 16: “Benefit from Trade #2”.

VII. CASE STUDIES

South Korea, India, ...

VIII. INEQUALITY AND GROWTH

A. *Measures and Sources of Inequality*

WEIL: Chapter 13.1-2.

REACTION PAPER 3 DUE NOVEMBER 30: Inequality and American growth.

B. *Inequality and Growth*

WEIL: Chapter 13.3.

WILLIAMSON: Chapter 9.

IX. GROWTH AND DEVELOPMENT IN THE WORLD ECONOMY

WILLIAMSON: Chapter 14.

****EXAM 2, December 12, IN CLASS****