

The Growth and Development of Nations in the Global Economy

Tuesday - Thursday 2:30-3:45, 184 Russell Labs

In the early years of the modern era of globalization, the economic historian Richard Easterlin wrote 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,” *J. Econ. Perspectives* (2000).

Despite these achievements, poverty and income inequality remain prevalent. Controversy over the role of trade and global markets in economic growth and poverty alleviation has perhaps never been greater.

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. That is what we address in this course. After a brief survey of broad patterns of growth and living standards, we first explore the basic economics of international trade. Taking technology and nations' endowments of productive resources as given, the doctrine of comparative advantage suggests that trade between poor and rich countries can be mutually beneficial, raising aggregate income in both. We explore the logic of comparative advantage and some critiques on how it shapes growth and development. We also consider how barriers to trade such as tariffs may alter the size and the distribution of gains from trade.

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 explores the “drivers” of economic growth and the reasons why growth experiences vary across nations and over time.

In the third part of the course, we bring the trade and growth stories together. We delve deeply into how endowments, technology, inequality, and institutions interact to shape growth and development outcomes. We characterize 21st century patterns of trade and global market interactions including global supply chains, outsourcing and foreign investment and revisit trade, growth and development controversies taking these into account. If time permits, we will look at the current US economy through the same lenses.

This course uses economic theory and evidence to better understand the factors that shape the wealth and well-being of nations and people in the world around us. It is also designed to impart basic economic and statistical literacy. Problem sets will be used to develop these skills by using real data to examine substantive issues from the lectures and readings. By completing this course you will gain an understanding of basic models of international trade and economic growth, simple statistics, a working knowledge of available data on the global economy, and the ability to analyze such data using spreadsheet software packages.

Prerequisite

The prerequisite for the course is an introductory college-level economics course.

Required texts

The following required books are held on library reserve and can be bought at University Bookstore:

Economic Growth, David Weil, Addison Wesley (2013). Readings from this book are noted as **WEIL** on the syllabus below and page numbers refer to 2nd edition. However, any edition is OK.

Understanding Global Trade, Elhanan Helpman, Harvard University Press (2011). (**HELPMAN**).

Trade and Poverty: When the Third World Fell Behind, Jeffrey G. Williamson, MIT Press (2011) (**WILLIAMSON**). Electronic copy available in UW library.

Additional required readings will be made available on the course web site.

Course page on Canvas

Lecture notes, problem sets, data sets, answer sheets and other material for the course will be posted on the course Canvas page at <https://canvas.wisc.edu/courses/103360>.

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 these 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.

You will also be asked to write three short (1 to 2 page) reaction papers in response to assigned readings. The goal of these papers is to engage you in the material and have you prepared for in-class discussion of the issues. Finally, there will be two exams, given in class.

Many classes are “back loaded” with many projects and tests towards the end of the semester. For that reason, this class is “frontloaded”: most of the homework comes 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 total 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.

Please prepare for class

There is a fair bit of “technical” material in the class. This includes economic models, data, and some statistical analysis. The syllabus provides you with readings and other resources that will help you get acquainted with this material. *I'll assume that you have read these ahead of class.* That will free up more time for us to explore the nuances of the material that we cover, and to discuss its implications.

A note on reading

Back in the day, the act of reading was simple: you carried a book to a quiet place, opened it, and let it capture all your attention. Nowadays, mobile devices and the internet have rendered reading (or more precisely, reading for comprehension and the acquisition and processing of knowledge) far more challenging and difficult. You know the issues! My suggestions:

- If you are reading on-screen then move to a quiet place and take your device offline, thereby giving yourself the opportunity to read without interruptions or distractions, just like in old times.
- Better still, try printing the assigned reading and reading it *off-screen*.
 - **Bonus:** you can also write helpful marginal notes for later reference).
- Whichever you choose, reading without distractions will ultimately be both more rewarding and more enjoyable.
- If you really can't exist without connectivity, then pre-schedule a fixed-duration insty-break (say 5 minutes each hour, on the hour), and stick rigorously to the schedule. It will be hard at first, but your future self will thank you for the opportunity to become so much smarter.
 - **Bonus:** once the reading is successfully done, you can go wild on social media without feeling a pang of guilt.

Pro-forma statements

Learning outcomes

This course uses economic theory and evidence to better understand the factors that shape the wealth and well-being of nations and people in the world around us. It is also designed to impart basic economic and statistical literacy. Problem sets will be used to develop these skills by using real data to examine substantive issues from the lectures and readings. By completing this course you will gain an understanding of basic models of international trade and economic growth, simple statistics, a working knowledge of available data on the global economy, and the ability to analyze such data using spreadsheet software packages.

Course credit information

This class meets for two 75-minute class periods plus one 50-minute discussion section each week over the fall semester and carries the expectation that students will work on course learning activities (reading, writing, problem sets, studying, etc.) for about 3 hours out of classroom for every class period. The syllabus includes more information about meeting times and expectations for student work.

Instructional Mode

Classroom-based instruction (lectures, in-class discussion) and discussion sections

Rules, rights & responsibilities

See the Guide's [Rules, Rights and Responsibilities](#)

Academic integrity

By enrolling in this course, each student assumes the responsibilities of an active participant in UW-Madison's community of scholars in which everyone's academic work and behavior are held to the highest academic integrity standards. Academic misconduct compromises the integrity of the university. Cheating, fabrication, plagiarism, unauthorized collaboration, and helping others commit these acts are examples of academic misconduct, which can result in disciplinary action. This includes but is not limited to failure on the assignment/course, disciplinary probation, or suspension. Substantial or repeated cases of misconduct will be forwarded to the Office of Student Conduct & Community Standards for additional review. For more information, refer to studentconduct.wiscweb.wisc.edu/academic-integrity/.

Ian's plain English version: We all make mistakes but plagiarism—the deliberate appropriation of another's work without due citation and acknowledgment—is never a mistake. It also makes you seem really dumb. First, because when you copy the work of others you deprive yourself of a learning opportunity. Second, because plagiarism is an act of laziness, so it is almost always super-easy to detect. Of course, with more time and effort you could conceal it better, but in that case why not spend the time doing original work instead?

Accommodations for students with disabilities

McBurney Disability Resource Center syllabus statement: "The University of Wisconsin-Madison supports the right of all enrolled students to a full and equal educational opportunity. The Americans with Disabilities Act (ADA), Wisconsin State Statute (36.12), and UW-Madison policy (Faculty Document 1071) require that students with disabilities be reasonably accommodated in instruction and campus life. Reasonable accommodations for students with disabilities is a shared faculty and student responsibility. Students are expected to inform faculty [me] of their need for instructional accommodations by the end of the third week of the semester, or as soon as possible after a disability has been incurred or recognized. Faculty [I], will work either directly with the student [you] or in coordination with the McBurney Center to identify and provide reasonable instructional accommodations. Disability information, including instructional accommodations as part of a student's educational record, is confidential and protected under FERPA." <http://mcburney.wisc.edu/facstaffother/faculty/syllabus.php>

Diversity & inclusion

Institutional statement on diversity: "Diversity is a source of strength, creativity, and innovation for UW-Madison. We value the contributions of each person and respect the profound ways their identity, culture, background, experience, status, abilities, and opinion enrich the university community. We commit ourselves to the pursuit of excellence in teaching, research, outreach, and diversity as inextricably linked goals.

The University of Wisconsin-Madison fulfills its public mission by creating a welcoming and inclusive community for people from every background – people who as students, faculty, and staff serve Wisconsin and the world." <https://diversity.wisc.edu/>

Assignment, Review Session and Exam Schedule

<i>Assignment</i>	<i>Available</i>	<i>Due</i>
Reaction Paper 1: Is Globalization Good?	Sept 7	Sept 20
Problem Set 1: Benefits from Trade #1	Sept 14	Sept 27
Reaction Paper 2: Globalization and the lower-income countries	Sept 28	Oct 4
Problem Set 2: Economic Growth: Convergence	Sep 28	Oct 11
Problem Set 3: Tariffs, welfare, and inequality	Oct 12	Oct 23
EXAM 1 (in class)		Oct 30
Problem Set 4: Benefits from Trade #2	Nov 2	Nov13
Reaction Paper 3: Globalization and the upper-income countries	Nov 16	Nov 29
EXAM 2 (in class)		Dec 11

Discussion Sections

Discussion sections will be held weekly on Fridays, **starting September 13**. Most will be keyed to particular problem sets in addition to teaching basic tools needed. The schedule and topics are as follows.

<i>Dates</i>	<i>Topics</i>
Week 1	Functions, concepts & intro. to Excel
Week 2	Problem Set 1 & gains from trade
Week 3	Visual representation of data
Week 4	Representing distributions with numbers
Week 5	Problem Set 2 & Hypothesis tests with numbers
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 (Thanksgiving)
Week 13	Inequality and growth
Week 14	Exam 2 Review

Syllabus and class schedule

I. INTRODUCTION: The long view and the big issues (Sep. 6)

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

II. COMPARATIVE ADVANTAGE AND GAINS FROM TRADE (Sep. 11-18)

A. *Some basic analytical tools*

WEIL, Ch.2, pp. 30-37

B. *Understanding international trade: comparative advantage and gains from trade*

HELPMAN, Chapter 2, pp. 12-32.

Plus: any graphical exposition of gains from specialization and trade (ex:
<http://www.economicdiscussion.net/trade/gains-from-trade-static-and-dynamic-gains/10711>)

REACTION PAPER 1 DUE SEPTEMBER 20 (in class): “Is Globalization Good?”

C. *Understanding international trade: North-South trade*

HELPMAN, Chapter 2, pp. 28-45.

PROBLEM SET 1 DUE SEPTEMBER 27: “Benefits from Trade”

III. CONTROVERSIES OVER TRADE (Sep. 25 – Oct. 2)

A. *Should countries pursue comparative advantage? Tariffs and development*

WILLIAMSON, Chapter 13

Feenstra and Taylor, *International Economics*, pp. 241-263.

B. *Trade, inequality and development*

HELPMAN, Chapter 3

WEIL, Chapter 11, pp. 329-333.

C. *The natural resource curse*

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

WEIL, Chapter 15.3.

(deeper read: **Sachs and Warner 2001** in Readings file)

REACTION PAPER 2 DUE OCTOBER 5: Topic TBA

D. *Taking stock: trade, growth and development*

Reading TBA

IV. GROWTH (Oct. 4-25)

A. *Economic growth concepts, measures and models*

WEIL: Chapter 2, Chapter 7

- B. *Solow growth model and convergence (2 classes)*
WEIL: Chapter 3.

PROBLEM SET 2 DUE OCT 13: “Convergence”.

- C. *Technology, human capital, poverty traps (3 classes)*
WEIL: Chapter 6, 7.3.

- D. *Growth in the open economy*
WEIL: Chapter 11.

PROBLEM SET 3 DUE OCTOBER 25: “Tariffs, welfare, and inequality”.

****EXAM 1: OCTOBER 30, IN-CLASS****

V. TRADE, GROWTH AND DEVELOPMENT IN THE 21ST CENTURY (Nov. 1-20)

- A. *Export oriented industrialization and “Miracle” growth*
Reading TBA
- B. *Trade liberalization and productivity growth: modern models*
HELPMAN: Chapter 5
- C. *Offshoring, outsourcing and FDI (2 classes)*
HELPMAN: Chapter 6
- D. *Trade, growth and inequality in emerging economies*
WEIL: Chapter 13, pp.370-392
WILLIAMSON: Chapter 9 (historical background)
- E. *Trade and inequality in mature economies*
Reading TBA

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

VI. TRADE INSTITUTIONS AND POLICIES (Nov. 27 – Dec. 6)

- A. *Trade agreements and institutions*
Reading TBA
- B. *Environmental agreements, trade and growth*
Reading TBA
- C. *Policy choices for emerging economies*
Reading TBA
- D. *Policy choices for mature economies*
Reading TBA

REACTION PAPER 3 DUE DECEMBER 4: Inequality and growth.

****EXAM 2, December 11, IN CLASS****