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International Studies & AAE 374  
Fall, 2008

Professors Bradford Barham and John Morrow  
Teaching Assistant Andres Moya

## **The Growth and Development of Nations in the Global Economy**

**M, W 2:30-3:45, 184 Russell Labs**

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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, over 1.2 billion people live on less than \$1/day (a figure that has continued to modestly increase over the last decade), and income inequality is on the increase in most 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 rich country cotton subsidies, 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.

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 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 or Underground Textbook Exchange:

*Economic Growth*, David Weil, Addison Wesley (2005). Readings from this book are noted as **WEIL** on the syllabus below.

*The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, William Easterly, MIT Press (2002). Readings from this book are noted as **EASTERLY** on the syllabus below.

A Xeroxed packet of other required readings is available for purchase at the Underground Textbook Exchange, 664 State Street.

### ***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: <http://www.aae.wisc.edu/aae374> .

### ***Office Hours and Contact Information***

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Bradford Barham  
Tuesdays: 1:00-2:00 p.m.  
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Andres Moya  
Wednesdays: 4:00-5:00 p.m.  
Fridays: 12 noon-1:00 p.m.  
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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 the excel- and gauss-based computer programs. 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 be during the final exam period. Finally, you will also be asked to write three short (1 to 2 page) reaction papers in response to an assigned article that discusses 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 article.

The specific point breakdown for the course will be 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 45% of total grade)

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: Rosenberg's "The Free Trade Fix"	3 Sept	8 Sept
Problem Set 1: Trade and Growth in a North-South Model	10 Sept	24 Sept
Reaction Paper 2: Cotton & the Death of Doha	24 Sept	1 Oct
Problem Set 2: Economic Growth: Unconditional Convergence	1 Oct	8 Oct
Problem Set 3: Economic Growth: Conditional Convergence	8 Oct	15 Oct
Review Session, Room B-30 Taylor Hall, 7pm.	Tuesday, 21 Oct	
EXAM 1 (in class)	22 October	
Reaction Paper 3: TRIP-ing on Drugs	27 Oct	3 Nov
Problem Set 4: Increasing Returns & the Reproduction of "Core-Periphery" Structure	5 Nov	19 Nov
Review Session, Room B-30, Taylor Hall, 1:00 p.m.	15 Dec	
EXAM 2, Room TBA, 2:45 p.m.	16 Dec	

### *Discussion Sections*

Discussion Sections will be held Fridays, 11:00-11:50, 1:20-2:10 and 2:25-3:15 in the computer lab in the basement of Taylor Hall (room B4). 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>
5 September	Functions, Graphs and Excel
12 September	P-Set 1 & Gauss Software
19 September	Visual Representation of Distributions
26 September	Representing Distributions with Numbers (measures of central tendency)
3 October	P-Set 2 & Representing Distributions with Numbers (measures of dispersion)
10 October	P-Set 3 & Time plots and conditional analysis
17 October	Exam 1 Review
24 October	No Sections
31 October	No Sections
7 November	P-Set 4
14 November	P-Set 4
28 November	No Sections
5 December	No Sections
12 December	Exam 2 Review

### *Syllabus and Course Schedule*

#### **I. INTRODUCTION TO THE GROWTH AND WEALTH OF NATIONS IN THE GLOBAL ECONOMY (3-8 September)**

“The Worldwide Standard of Living since 1800,” Richard A. Easterlin, *Journal of Economic Perspectives*, 14, 1 (2000): 7-26.

**WEIL:** Chapter 1

**REACTION PAPER 1 DUE 8 SEPTEMBER (in class):** “The Free Trade Fix,” Tina Rosenberg, *New York Times Magazine* 18 August 2002.

## **II. LIBERALIZATION & TRADE UNDER COMPARATIVE ADVANTAGE**

### A. *The Basics of Comparative Advantage (10-15 September)*

Appleyard et al. “The Classical World of David Ricardo and Comparative Advantage,” pgs 27-38 & “Neoclassical Trade Theory,” pgs 85-99.

**PROBLEM SET 1 DUE 24 SEPTEMBER:** “Trade and Growth in a North-South Model”

### B. *North-South Trade and Comparative Advantage Based on Factor Endowments (15-17 September)*

Appleyard, “Factor Endowments and the Heckscher-Ohlin Model,” pgs 123-136.

## **III. COMPARATIVE ADVANTAGE: CRITIQUES AND BASE POLITICS**

### A. *The Structuralist Critique: Prebisch-Singer, and Lewis (22 September)*

Weil, Chapter 15

Lewis, W. Arthur, *The Evolution of the International Economic Order* (Princeton University Press: 1978): 3-20.

### B. *The Natural Resource Curse (24 September)*

Halvor Mehlum et al., “Cursed by Resources or Institutions?” *The World Economy*, 116 (2006): 1117-1131.

**REACTION PAPER 2 DUE 1 OCTOBER:** Cotton and the Death of Doha

### C. *Base Politics? Current Trade Issues—Doha and all that (29 September, 1 October)*

Oxfam. “Finding the Moral Fiber: Why reform is urgently needed for a fair cotton trade,” (2004) Oxfam policy paper.

Anderson, Kym and Ernesto Valenzuela. “The WTO’s Doha Cotton Initiative: A Tale of two Issues,” (2006) World Bank research paper.

## **IV. OBJECT GAPS: GROWTH, AND THE LIMITS TO GROWTH, THROUGH FACTOR ACCUMULATION**

### A. *Harrod-Domar and Pure Physical Capital (1, 6 October)*

**WEIL:** Chapter 2

**EASTERLY:** Chapter 2

**PROBLEM SET 2 DUE 9 OCTOBER:** “Economic Growth—Unconditional Convergence”

### B. *Physical Capital (Exogenous Simple Solow Model) (6-8 October) + Institutions?*

**WEIL:** Chapter 3

**EASTERLY:** Chapter 3

Nelson, Richard R “What enables rapid economic progress: What are the needed institutions?” *Research Policy*, 37 (2008): 1-11.

*Human Capital (Health and Education) (8-13 October)*

**WEIL:** Chapter 6, 7.3

**EASTERLY:** Chapter 4

**PROBLEM SET 3 DUE 17 OCTOBER:** “Economic Growth—Conditional Convergence”

**V. IDEA GAPS, INCREASING RETURNS, AND ECONOMIC GROWTH**

A. *Exogenous Technology and Technology Transfer (15-20 October)*

**WEIL:** Chapter 7.1 and 7.4, Chapter 8, Chapter 9.1

Diamond, Jared M. "Spacious Skies and Tilted Axes" (pgs 176-191) in: *Guns, Germs, and Steel: The Fates of Human Societies* (WW Norton & Company, 1997).

**\*\*EXAM 1: 22 OCTOBER, IN-CLASS\*\***

B. *Technology and Growth and Convergence in the West (27 October)*

Nelson, Richard R. and Gavin Wright, “The Rise and Fall of U.S. Technological Leadership: The Post War Era in Historical Perspective,” *Journal of Economic Literature*, 30, 4 (1992): 1931-1964.

C. *Trafficking in Ideas: Patents, Trade and the WTO (29 October)*

Fink, Carsten. “Intellectual Property and Public Health: The WTO’s August 2003 Decision in Perspective,” in R. Newfarmer (ed.) *Trade, Doha and Development: A Window into the Issues* (2005): World Bank.

Lanjouw, Jean (2001). “A Patent Policy Proposal for Global Diseases,” working paper, Yale University.

D. *Increasing Returns to Scale and “Endogenous Growth” (3 November)*

**WEIL:** Chapter 9.3

**EASTERLY:** Chapter 8 and Chapter 9

Wright, Gavin “The Origins of American Industrial Success, 1879-1940”, *American Economic Review*, September 1990: 651-668.

**REACTION PAPER 3 DUE 3 NOVEMBER:** TRIP-ing on Drugs

E. *Technological Change in the Contemporary Global Economy (5 November)*

Pack, Howard and Kamal Saggi, “Inflows of Technology and Indigenous Technological Development,” *Review of Development Economics* 1, 1 (1997): 81-98.

F. *‘External’ Scale Economies, Endogenous Growth and the Dynamics of Comparative Advantage (10, 12 November)*

Krugman and Obstfeld, *International Economics*, pages 136-151.

“Industrial Policy in an Export-Propelled Economy: Lessons from South Korea’s Experience,” Larry Westphal, *Journal of Economic Perspectives* 4, 3 (1990): 41-59.

**PROBLEM SET 4 DUE 20 NOVEMBER:** “Increasing Returns & the Reproduction of ‘Core-Periphery’ Structure”

## **VI. INEQUALITY AND GROWTH**

### A. *Measures and Sources of Inequality (17, 24 November)*

**WEIL:** Chapter 13.1-2

Atkinson, A.B. (2002), “A Critique of the Transatlantic Consensus on Rising Income Inequality,” *World Economy*, 24 (4): 433-452.

### B. *Inequality’s effects on Growth (24 November, 26 November)*

**WEIL:** Chapter 13.3

**EASTERLY:** Chapter 13

“Inequality and Growth Reconsidered: Lessons from East Asia,” Nancy Birdsall, David Ross and Richard Sabot, *The World Bank Economic Review* 9,3 (1995): 477-508.

## **VII. INSTITUTIONS AND GROWTH**

### A. *Inequality and Institutions (1 December)*

Sokoloff, Kenneth L., and Stanley L. Engerman, “Institutions, Factor Endowments, and Paths of Development in the New World,” *Journal of Economic Perspectives*, 14, 3 (2000): 217-232.

### B. *Institutions as the Fundamental Cause of Economic Growth (December 3,8)*

Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi, “Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development,” *Journal of Economic Growth*, 9, 2 (2004): 141-165.

Kuziemko, I. Werker, E., 'How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations', *Journal of Political Economy* , vol. 114, no. 5, 905-930 (2006).

## **VIII. CONCLUSION (10 December)**

Milanovic, Bronko, “The Two Faces of Globalization: Against Globalization as We Know It”, *World Development* 31, 4 (2003): 667-684.

**\*\*EXAM 2, SUMMARY PERIOD (16 December, 2:45 PM)\*\***