

The Growth and Development of Nations in the Global Economy

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* 14(1).

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 almost everywhere in the world. Controversy about free trade, the new global economy, and for whom these things work has been perhaps never been higher.

Understanding these controversies requires delving into key questions about the forces, strategies, and policies that shape the growth and development of nations in a global economy. After a brief survey of the global economic landscape and the patterns of growth and living standards found within it, this course focuses on three questions. First, what are the key economic determinants of growth and technological change and how do they contribute to the convergence or divergence of standards of living? Second, how does the global push for freer trade influence patterns of convergence or divergence among nations? Finally, how do these same forces of freer trade and technological change shape the distribution of income among nations?

In this course, we will use economic theory, computer simulations, and historical data to better understand the forces that shape the wealth and well-being of nations and people in the world around us. Throughout the course, we will connect the conceptual and theoretical discussion with real experience drawn from around the globe. While the course is centered on economic models and thinking, we will do our best to make these things accessible.

In addition to the subject matter outlined above, 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. While in no way intended to substitute for a full course in statistics, 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, such as Economics 101 or 102 or Agricultural Economics 215.

Required Texts

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

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. The Tina Rosenberg article will be on the course web page and can also be accessed through the UW's electronic newspaper collection.

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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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 one-hour exams. The first will be a conventional, in-class mid-term. The second will be during the final exam period and will focus on the last half of the course. Finally, you will also be asked to write one short (1 to 2 page) reaction paper in response to an assigned

article that discusses the globalization controversy. The goal of this paper 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:

- 7 Problem Sets (equally weighted—combined will be worth 55% of total grade)
- 1 Reaction Paper (worth 5% of total grade)
- 2 Exams (equally weighted—combined will be worth 40% of total grade)

Problem Sets and the Reaction Paper 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”	7 Sept	12 Sept
Problem Set 1: The Wealth and Heterogeneity of Nations	14 Sept	21 Sept
Problem Set 2: Convergence and Divergence in the Global Economy	21 Sept	28 Sept
Problem Set 3: Population, Human Capital	5 Oct	12 Oct
Problem Set 4: Total Factor Productivity and Other Sources of Growth	19 Oct	26 Oct
Review Session, Room B-30 Taylor Hall, 2 p.m.	Saturday, 29 Oct	
EXAM 1 (in class)	31 October	
Problem Set 5: Trade and Growth in a North-South Model	9 Nov	16 Nov
Problem Set 6: Increasing Returns & the Reproduction of “Core-Periphery” Structure	16 Nov	30 Nov
Problem Set 7: Changing Patterns of Inequality in the Global Economy	30 Nov	7 Dec
Review Session, Room B-30, Taylor Hall, 8 p.m.	??	
EXAM 2, Room TBA, 7:25 p.m.	16 December	

Discussion Sections

Discussion Sections will be held Thursdays, 2:30-3:20 and Fridays, 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>Substantive Topic</i>	<i>Statistical Topic</i>
8/9 September	--	Functions, Graphs and Excel
14/15 September	P-Set 1	Visual Representation of Distributions
22-23 September	P-Set 2; calculating growth rates	Representing Distributions with Numbers (measures of central tendency)
29-30 September	--	Representing Distributions with Numbers (measures of dispersion)
6-7 October	P-Set 3	Time plots and conditional analysis
13-14 October	Review of Growth Theory	--
20-21 October	P-Set 4	--
27-28 October	Exam 1 Review	--
3-4 November	--	Causality & Correlation
10-11 November	P-Set 5	Gauss Software
17-18 November	P-Set 6	Regression 1
1-2 December	P-Set 7	Regression 2
8-9 December	Exam 2 Review	--

Syllabus and Course Schedule

I. INTRODUCTION TO THE GROWTH AND WEALTH OF NATIONS IN THE GLOBAL ECONOMY (7-9 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 12 SEPTEMBER: “The Free Trade Fix,” Tina Rosenberg, *New York Times Magazine* 18 August 2002. **[POSTED ON COURSE WEB PAGE]**

II. GROWTH, AND THE LIMITS TO GROWTH, THROUGH FACTOR ACCUMULATION

A. Harrod-Domar and Pure Physical Capital (14 September)

WEIL: Chapter 2

EASTERLY: Chapter 2

B. Physical Capital (Exogenous Simple Solow Model) (19-/21 September)

WEIL: Chapter 3

EASTERLY: Chapter 3

C. Population (26-28 September)

WEIL: Chapter 4

EASTERLY: Chapter 5

D. Human Capital (Health and Education) (3-5 October)

WEIL: Chapter 6

EASTERLY: Chapter 4

III. GROWTH THROUGH TECHNOLOGICAL CHANGE

A. Technology and Growth and Convergence in the West (10 October)

“The Erosion of U.S. Technological Leadership as a Factor in Postwar Economic Convergence,” (129-163), Richard R. Nelson and Gavin Wright in *Convergence of Productivity*, edited by William J. Baumol, Richard R. Nelson, and Edward N. Wolff, Oxford University Press, New York (1994).

B. Exogenous Technology and Technology Transfer (12-17 October)

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

C. *Increasing Returns to Scale and “Endogenous Growth” (10/19-10/24)*

WEIL: Chapter 9.3

EASTERLY: Chapter 8 and Chapter 9

D. *Technological Change in the Contemporary Global Economy (26 October)*

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

****EXAM 1, IN CLASS (31 October)****

IV. TRADE, TRADE LIBERALIZATION AND GROWTH

A. *The Basics of Comparative Advantage (2-9 November)*

Appleyard, Field, and Cobb in *International Economics* pgs 29-37, 63-66, 68-70, 78, 85-99.

B. *North-South Trade and Comparative Advantage Based on Factor Endowments (14 November)*

Appleyard, Field, and Cobb in *International Economics* pgs 125-136.

C. *Trade and the Dynamics of Comparative Advantage in the Presence of Increasing Returns and Endogenous Growth (16 November)*

Appleyard, Field, and Cobb in *International Economics* pgs 326-333, 416-419.

D. *Trade Policy in the Contemporary Global Economy (21-23 November)*

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

“Trade Liberalization and Growth: Recent Experiences in Latin America,” Manuel R. Agostin and Ricardo French-Davis, *Journal of Inter-American Studies and World Affairs*, 37, 3 (1995): 9-58.

V. TRADE AND TECHNOLOGICAL CHANGE AND INCOME DISTRIBUTION IN AN INTEGRATED WORLD ECONOMY

A. *Growth and Trade on Inequality (28-30 November)*

WEIL: Chapter 13.1 and 13.2

“Trends in Income and Wages,” pgs 1-34 in *Trade and Income Distribution*, William Cline, Institute for International Economics, Washington, D.C.

“Openness and Wage Inequality in Developing Countries: The Latin American Challenge to East Asian Conventional Wisdom,” Adrian Wood, *The World Bank Economic Review*, 11, 1 (1997): 33-57.

B. *Inequality's effects on Growth (5-7 December)*

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* vol. 9, no. 3, September (1995): 477-508.

VI. GOVERNANCE, SOCIAL CAPITAL AND CORRUPTION (12 December)

WEIL: Chapter 12.3 and Chapter 14

EASTERLY: Chapter 12

VII. CONCLUSION (14 December)

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

“How Far Will International Economic Integration Go?” Dani Rodrik, *Journal of Economic Perspectives*, 14, 1 (2000): 177-186.

****EXAM 2, SUMMARY PERIOD (16 December)****