

SYLLABUS

ApEc 3007—Applied Macroeconomics: Policy, Trade and Development

Fall 2008

Instructor:	Professor Philip Pardey (ppardey@umn.edu)
Office:	218j Classroom Office Building
Office Hours:	Following class, or by appointment
Teaching Assistant:	Steven Dehmer (dehm0020@umn.edu)
Lecture Hours:	Tuesday and Thursday 1.15-2.30 pm
Classroom:	B25 Classroom Office Building, St Paul campus

Course Description

This is an undergraduate course in trade and economic development addressed in four main parts:

Part I lays out what we know about the state of economic development worldwide and international trade: including indicators of economic development, how trade has grown over recent centuries, the particular role of trade in agriculture, and concerns over globalization and the welfare of developing countries.

Part II develops the concept of comparative advantage and the technological basis for trade and the gains from trade. The concepts of productivity, technical change, and the role of research and development will be identified and discussed.

Part III of the course will discuss *trade policy instruments* such as tariffs, subsidies, and trade preferences along with the *trade related institutions* that make trade and development happen.

Part IV revisits the basis for trade, identifying the role of resource endowments. The trade models considered here go beyond identifying the gains from trade to reveal the income distribution consequences of trade.

Part V includes a selection of trade-related topics, some of which may be considered in class if time permits. Topics listed include the international movement of capital and labor (i.e., factor mobility), intellectual property and trade regulation, economies of scale and imperfect competition, and trade policies in developing countries.

Text and Additional Readings

The text for the course will be

Krugman, Paul R. and Maurice Obstfeld. 2009. *International Economics: Theory & Policy*. Eighth Edition. Boston: Pearson, Addison-Wesley.

Other readings will be available on a private course website and in the Waite Library (232 Classroom Office Building). Those readings marked with an asterisk (*) are “additional readings.” Students are encouraged but not required to access this additional material—it is included in the syllabus for those who are particularly interested in a given topic. Lecture material will be posted online.

Pre-requisites

Students are required to have completed APEC/ECON 1101 and 1102 (or equivalent), and are strongly recommended to have taken APEC 3001 and 3006. Students are also expected to have a basic working knowledge of Excel.

Course Requirements

There will be five in-class or take home quizzes, two take-home assignments, and one final exam required for credit.

In-Class or Take Home Quizzes

Most quizzes will be in class, and typically 15 minutes of class time is set aside for each quiz. The quizzes are spread evenly throughout the term and are designed to test students knowledge of the material covered from quiz to quiz. Quiz questions will be drawn from in-class discussions and assigned readings. Sometimes, earlier material may be retested, but students will be warned in advance if this is to happen. Students are encouraged to bring a calculator to each quiz. Students will be informed of upcoming quiz dates as the semester progresses.

Take-home Assignments

There will be two take-home assignments. The first assignment will be distributed in the second week of class; the second around mid-term.

Assignment Part I

The first take-home assignment is due back by Thursday, October 30th. It is designed to develop students' skills in accessing, manipulating, and interpreting trade-related data. A basic knowledge of Excel is required.

Assignment Part II

The second take-home assignment is due back by Thursday December 4th. It is designed to test students' skills in analyzing and writing about trade policy.

Final Exam

The final exam will be a take-home. It will be collected from my administrative assistant, Sue Pohlod (218 Classroom Office Building) on Friday, December 12th and is to be returned to Sue by 4.30 pm on Monday, December 15th.

Grading

The final grade will be a weighted average of three separate components:

In-class and take home quizzes	35%
Take home assignments, parts I and II	30%
Final exam	35%

Assignments that are late will be marked down by 1/3 of a grade (for example, a B+ becomes a B) per day. There will be no make-up exams for the final exam or the quizzes. A missed quiz will be scored as zero and included in the total of five. These penalties may be waived, at the discretion of the instructor, if evidence of a serious illness or a family emergency is presented.

Lecture Schedule

I. Introduction (4 lectures)

What is economic development? How do economists measure “development”?
Aspects of income inequality.

Globalization—what does it mean?

What do we know about international trade and why study it?

Readings:

Krugman and Obstfeld. Chapters 1 and 2, pp. 1-26.

Diaz-Bonilla, E. and S. Robinson. 2001. Introduction, in *Shaping Globalization for Poverty Alleviation and Food Security*. International Food Policy Research Institute, IFPRI 2020 Focus 8.

Baldwin, R.E. and P. Martin. 1999. “Two Waves of Globalization: Superficial Similarities, Fundamental Differences.” NBER Working Paper No. 6904, National Bureau of Economic Research, January.

World Bank. 2007. “Growth and Poverty Reduction in Agricultures Three Worlds,” Chapter 1 in *World Development Report 2008: Agriculture for Development*. Washington D.C.: World Bank (skim).

* World Bank. 2007. “Overview,” *World Development Report 2008: Agriculture for Development*. Washington D.C.: World Bank (skim).

* Anderson, K. and W. Martin. 2006. “The Doha Agenda on Agriculture: Potential and Pitfalls.” Principal paper at American Agricultural Economics Association annual meetings, Long Beach, CA, 23-26 July.

* The Economist. 2001. “Globalization and its Critics,” “Profits Over People,” and “Grinding the Poor.” September 27 (other parts of the survey also well worth reading).

* Krugman, P. 1993. “What Do Undergrads Need to Know about Trade?” *American Economic Review* (May): 23-26.

Assignment Preparation

- Data sources
- Some trade analysis tools—price deflation, exchange rates and purchasing power parities, PPPs (currency conversion), and growth rates
- Excel calculation and graphing basics
- Krugman and Obstfeld. Chapter 15, pp. 369-371 and 382-383.
- Excel self-paced training options.
 - http://uttc.umn.edu/training/tutorials/tutorials_list.jsp
 - <http://office.microsoft.com/en-us/training/CR061831141033.aspx?StartAt=1>
 - <http://www.smarthelp.com/Courses/Excel2003.aspx> (not free)

II. Comparative Advantage, Technology and the Gains from Trade (6 lectures)

1. Ricardian Model (constant opportunity costs)

Labor Productivity and Comparative Advantage

Readings:

Krugman and Obstfeld. Chapter 3, pp. 27-53.

2. Technical Change, Productivity and Growth

Readings:

World Bank. 2007. "Innovating through Science and Technology." Chapter 7 in *World Development Report 2008: Agriculture for Development*. Washington D.C: World Bank.

Pardey, P.G., N.M. Beintema, S. Dehmer and S. Wood. 2006. *Agricultural Research: A Growing Global Divide?* IFPRI Food Policy Report. Washington, D.C.: International Food Policy Research Institute.

Ruttan, V.W. 2001. *Technology Growth and Development: An Induced Innovation Perspective*. New York: Oxford University Press, chapter 4, pp. 100-118.

Krugman, P. 1994. "Technology's Revenge." *The Wilson Quarterly* (Autumn):56-64 (reprinted in P. Krugman. *Pop Internationalism*. Cambridge: MIT Press, 1997).

III. Trade Policy Instruments and Institutions (5 lectures)

A. Tariffs, Subsidies and Structural Barriers to Trade

Readings:

Krugman and Obstfeld, Chapter 8, pp. 182-203.

B. Political Economy of Trade

1. Global and Regional Trade Agreements

Preferential Trading Agreements

Readings:

Krugman and Obstfeld, Chapter 9, pp. 212-246 (especially pp. 239-242).

Houck, J.P. *Elements of Agricultural Trade Policies*. New York: MacMillan, 1986, pp. 150-157.

World Bank. 2007. "Realizing Gains from Trade, Price and Subsidy Reform." Chapter 4 in *World Development Report 2008: Agriculture for Development*. Washington D.C.: World Bank.

2. International Trade Preferences and Institutions (IMF, World Bank, and WTO)

Readings:

IMF. 2007. "The IMF at a Glance." Available online at <http://www.imf.org/external/np/exr/facts/glance.htm>.

World Bank. 2007. *World Bank Group Brochure*. Available online at <http://siteresources.worldbank.org/EXTABOUTUS/Resources/wbgroupbrochure-en07.pdf>.

WTO. 2007. *Understanding the WTO*. Geneva, WTO, pp. 2-5 and 9-12. Available online at http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm.

Mallaby, S. 2005. "Saving the World Bank." *Foreign Affairs* 84(3): 75-85.

IV. Comparative Advantage and the Distributive Effects of Trade (9 lectures)

1. Heckscher-Ohlin Model

Resource Endowments, Comparative Advantage, and Income Distribution

Readings:

Krugman and Obstfeld. Chapter 4, pp. 54-84.

Thanksgiving vacation (November 27 and 28)

2. Standard Trade Model and Terms of Trade Effects

Readings:

Krugman and Obstfeld, Chapter 5, pp. 88-110.

V. Topics in Trade and Development (selection of topics if/as time permits)

1. Intellectual Property and Trade Regulation

Readings:

Maskus, K. 2000. *Intellectual Property Rights in the Global Economy*. Washington D.C.: Institute for International Economics, chapter 2 and pages 27-33 and table 3.1.

WIPO. 2007. "WIPO Treaties." Available online at <http://www.wipo.int/treaties/en/general>.

* WIPO. 2001. "Introduction." chapter 1 in *WIPO Intellectual Property*. World Intellectual Property Organization, Geneva, pp. 4-12.

Josling, T., D. Roberts, and D. Orden. 2004. *Food Regulation and Trade: Toward a Safe and Open Global System*. Washington D.C.: Institute for International Economics, chapter 2.

2. Factor Mobility and Inter-temporal Trade

Readings:

Krugman and Obstfeld, Chapter 7, pp. 153-173.

3. Economies of Scale and Imperfect Competition

Readings:

Krugman and Obstfeld, Chapter 6, pp. 114-151.

4. Trade Policy in Developing Countries

Readings:

Krugman and Obstfeld, Chapter 10, pp. 250-265.

Dollar, D. and A. Kraay. 2002. "Spreading the Wealth." *Foreign Affairs* 81(1) (January/February):120-33.

Last Lecture: Tuesday, December 9th

Final Exam Due: Monday, December 15th, 4.30 pm