

GLOBAL 234: GLOBALIZATION AND MARKETS WINTER 2013

Aashish Mehta
Office: 2111 SS&MS
Office Hours: TBD
Email: mehta@global.ucsb.edu

Objective: This course serves several objectives. Its intellectual purpose is to provide a conceptual framework for thinking about how markets operate, what they require of society and the state in order to function effectively, the advantages and disadvantages of allocating scarce resources through them, and when and how to regulate them. Because economic globalization consists, in the main, of an expansion of the scale and scope of markets, it cannot be constructively engaged without this. Its more utilitarian goals are to work on basic literacy regarding a laundry list of economic concepts that are central to understanding current economic policy debates; and some basic skills (e.g. Excel) that will be helpful when analyzing policy and communicating one's findings.

Motivation: Recent economic history provides much food for thought. On one hand, economic liberalization has not yielded the benefits some expected: Instead of unleashing competition and efficiency, financial deregulation in the U.S. and some European countries led to considerable wealth destruction and an anti-competitive consolidation of financial power. The latest round of trade liberalization in developing countries did not reduce wage-inequality. The introduction of a vast number of new financial instruments designed to manage risks have not brought greater stability to financial and commodity markets. Low tax regimes in the U.S. and U.K. do not appear to have generated much wage growth at the bottom. And so on. On the other hand, the prediction that per capita national incomes of countries would begin to converge, long derided as evidence that economics as a discipline was out of touch, now seems prescient. Moreover, the BRIC countries whose rising standards of living contribute to this impression only began to accelerate once they began to liberalize their economies, albeit in ways that raise their own challenges to liberal economic orthodoxy.

In this context, growing inequality within countries, economic instability, fiscal crisis, and environmental destruction have led to calls for "change" that have recently become widespread. While the desired outcomes of such change are clearly stated and even command something of a consensus, the means of achieving these outcomes remain contested. This should not be surprising given the historical experience described above. This class assumes that progress towards these ends requires consensus-worthy economic policy prescriptions. This, in turn, requires a conceptual framework that is both clear (leading to policies with clearly communicable rationales) and flexible in response to new evidence and good opposing arguments. The class proposes that solid foundations in positive economics – the nuts and bolts of how markets, economic policy and economic institutions operate; coupled with a critical understanding of normative economics – the

often unstated value judgments that underlie policy prescriptions; provide a useful starting point for building such a framework.¹

Structure: This class is about potential solutions to economic problems. We will begin by giving theoretical meaning to the notion of an economic “problem”. Here we will define problems of two types: market failures (economic inefficiency); and fairness issues (injustice, inequality). Thereafter, we will examine what economic efficiency is; the circumstances under which economists of different stripes believe efficiency to be desirable; the conditions necessary for markets to eliminate inefficiencies; what policies and institutional adjustments might be helpful in reducing inefficiencies when markets fail; and how to design policies that resolve tensions between efficiency and fairness. In its analytical content, the course resembles a standard course in introductory microeconomics. Its relevance to Global Studies will derive from its emphasis on making normative assumptions explicit; and from the objects of study used to exemplify the application of economic principles. In particular, many of the examples will involve economic development – for example, we will examine the history of the coffee crisis and its relationship to the development of the fair trade movement; aid effectiveness and dependency; and the global food price crisis.

Pedagogy: This course will provide an accelerated canonical treatment of the fundamentals of microeconomics and welfare economics. It will do so through the use of graphs, logic and many examples of how to apply these principles to policy issues of interest to Global Studies majors. This is a tools and survey course, and due to the volume of material to be delivered, there will be more lecture and discussions will be more directed than in most G&IS courses.

Use of Mathematics: This course involves almost no abstract mathematics. You will need to be able to perform basic arithmetic (including fractions/decimals/percentages), interpret graphs, and calculate the areas of rectangles and triangles. Deductive logic will be important. Once or twice, we may use some basic algebraic operation.

Reading: The G&IS 234 Reader is required reading and is available from the Associated Students Copy Shop. I will also assign additional readings during the semester, most often recent newspaper articles, which I will place on Gauchospace. In case you would like to purchase an introductory economics textbook as a reference, “Economics: Principles and Policy” by William Baumol and Alan Blinder is an excellent choice, and is affordable used. Your policy brief will critique a proposal in Bill Clinton’s new book *Back to Work: Why we need smart government for a strong economy*, although you could probably share a copy.

¹ Note: Economists and technocrats tend to approach the “positive” / “normative” distinction less critically than other social scientists and humanists. We will acknowledge this, but will exploit the distinction for its value in clarifying policy deliberations.

Requirements/Grading: Policy Brief (22%), take-home final exam (20%), homework (48%), effort/course participation (10%).

- For your policy brief you will pick a policy proposal from the Clinton book (he lists 46 proposals), find and read the studies he uses to support his proposals as well as studies that disagree or point to the unintended side-effects of these policies, and write a tight policy position paper – 4 pages maximum (11 point font, single space, with a line space between paragraphs), including at least 12 references, at least eight of which must be serious research outputs (i.e. not newspaper articles, blogs, propaganda etc.). You are expected to present and weigh all sides of the argument respectfully, using empirical data and concepts covered in this course; state your views on the likely effects of the policy; identify any personal political interest/values that drive you to one side of the debate; and arrive at policy recommendations. Deadlines (no exceptions): You will identify your topic by Thursday, 24 January; submit an annotated bibliography by Tuesday, 19 February; and email a pdf of your final paper to me by Friday, 22 March.
- You will solve 8 homework assignments, each worth 6% of your score. Homework is due at the beginning of class, usually on a Tuesday. You get two automatic extensions of up to one week each. Otherwise, the homework is late and will not be graded. Please take your homework assignments seriously and endeavor to obtain perfect scores on each.
- You are strongly encouraged to work out and write up the solutions to homework assignments in groups of up to three students. However, you will be expected to work out and write up solutions to the final exam independently. Please make sure that your answers/positions are briefly but clearly explained in complete sentences using analytical tools covered in the course. Perfect grammar is a requirement, and grammar mistakes will be heavily penalized.
- The exam will involve simple applications of concepts/tools covered in class and in required readings to analyze real world problems. I may provide some readings so you have a common factual basis for solving them, or you may need to do some basic factual research. Email your final to me by noon on Friday, 15 March.
- Please note that I will be leaving the country on/around March 16, so it is imperative that you come see me with your final questions on your policy brief well before then.

	Topic	Reading	Homework
Part 1: Introduction			
<ul style="list-style-type: none"> • Why Study Economics? • Economics, development and globalization in historical context. • Method of Enquiry. • The structure of the course • Efficiency, Equity and possible tradeoffs between them. • Why (some) economists threw equity under the bus. 			
Tu.8 Jan.	<ul style="list-style-type: none"> -Why Study Economics? - Micro vs. Macro - Course overview - Positive/Normative Economics 	<ul style="list-style-type: none"> - Adam Smith, 1776. <i>An Enquiry into the Nature and Causes of the Wealth of Nations</i>. pp 1-11. - Dani Rodrik, 2007, <i>One Economics, Many Recipes</i>, pp. 1-6. 	
Th.10 Jan.	<ul style="list-style-type: none"> Some basic principles - Efficiency/ Equity - Homo Economicus - (Neo)liberalism. - Opportunity cost 	<ul style="list-style-type: none"> - Milton Friedman, 1962, <i>Capitalism and Freedom</i>, Introduction and Chapter 2: The role of government in a free society. - Ha Joon Chang, 2007. “Kicking away the ladder: the “real” history of free trade”. - Krugman “In praise of cheap labor” - <i>The Economist</i> “The problem with made in China” - Nielsen: Arrow’s theorem shows no voting system is perfect. 	
Tu. 15 Jan.	<ul style="list-style-type: none"> - Voluntary Exchange - Growth & Development 	<ul style="list-style-type: none"> - Course notes on voluntary exchange, Technical Efficiency and Pareto Efficiency. - Lester Thurow, 1975: <i>Generating Inequality</i>. Chapter 2: Economic Equity. -Video: Hans Rosling - Dani Rodrik, 2007, <i>One Economics, Many Recipes</i>, pp. 1-6, 195-212. 	
Part 2: Markets and Competition			
<ul style="list-style-type: none"> • What determines prices and quantities of commodities traded in a market? • Why do competitive markets achieve efficiency? • When is efficiency desirable/undesirable? • What are the negative consequences of intervening in markets to restore equity (e.g. artificial reductions in the price of food) and how can they be mitigated? • What is economic power, and what can be done about it? Part 1: monopoly and rent 			
Th. 17 Jan.	<ul style="list-style-type: none"> Efficiency, Marginal Costs & Benefits; Producer & Consumer Surpluses; Supply & Demand 	K&W, Chapter 3	HW#1 due: Excel and Efficiency. Free extension to Tuesday OK.
Tu. 22 Jan.	S&D, Markets & Equity, Intervention in the market	<ul style="list-style-type: none"> -Sen, 1981, <i>Poverty and Famines</i>, Ch7. -K&W, Chapter 4 	HW#2: due: Supply & Demand.
Th. 24 Jan.	Harmful interventions.	<ul style="list-style-type: none"> - “Availability of Kerosene to rural households: a case study from India” - Rice subsidies in the Philippines (TBD) 	
Tu. 29 Jan.	Costs and Perfect Competition.	<ul style="list-style-type: none"> - Global 234 course notes on cost and competition. - K&W, Ch. 9. 	HW#3 due: Interventions in markets.
Th. 31 Jan.	Costs and Perfect Competition (contd.)	<ul style="list-style-type: none"> - Global 234 course notes on cost and competition. - K&W, Ch. 9. 	

Tu. 5 Feb.	Profit Maximization Monopoly, Natural Monopoly	- K&W, Ch. 14 - Samuelsohn & Nordhaus. <i>Economics</i> . 2005. pp.192-197. -Video: Copyright Criminals (Hulu)	HW#4 due: Perfect Competition
Th. 7 Feb.	How should Non-profits price their services?	- “Beyond Cost Recovery: Setting User Charges for Financial, Economic and Social Goals”. 2004. David Dole & Ian Bartlett.	
Tu. 12 Feb.	Re-cap: markets & efficiency. Application to international coffee markets	- <i>Open Economy Politics: The Political Economy of the World Coffee Trade</i> . 1997. Robert H. Bates. Chapter 5. - <i>Uncommon Grounds: The history of coffee and how it transformed our world</i> . 1996. Mark Pendergrast. Chapters 5 & 10. - <i>The Coffee Paradox: Global Markets, Commodity Trade and the Elusive Promise of Development</i> . 2005. Benoit Daviron and Stefano Ponte. Chapter 2.	HW#5 due: Part 1: Monopoly. Part 2: How much should public utilities and non-profits charge?
Part 3: Market Failure			
<ul style="list-style-type: none"> • When will competitive markets fail to achieve efficiency? • How can/should governments respond? <ul style="list-style-type: none"> •What is economic power, and what can be done about it? Part 2: Information Asymmetry. •What is economic power, and what can be done about it? Part 3: Imposing costs on others. •Which goods and services should governments produce, and which should they leave to the private sector? 			
Th. 14 Feb	- Information Problems, with application to healthcare, aid, microcredit.	- <i>The Undercover Economist</i> . 2006. Tim Harford. Chapter 5. - <i>The White Man’s Burden: Why the West’s efforts to aid the rest have done so much ill and so little good</i> . 2006. William Easterly. Pages 3-11, Chapter 5. - <i>Economic Development</i> . Todaro & Smith. 2006. pp 241-247.	
Tu. 19 Feb.	- Information problems (contd.): application to the financial crisis - Externality	- Movie: Inside Job - Mishkin & Herbertsson, 2006, “Financial Stability in Iceland” - Joseph Stiglitz, <i>Freefall: America, Free Markets and the Sinking of the World Economy</i> , Chapter 4. - K&W, Chapter 19	HW#6: The distribution of rent in a supply chain.
Th. 21 Feb.	- Externality - Commons goods - Public Goods	-Climate change readings: TBD. -“Emission Impossible?” (FT editorial by Tim Harford).	
Part 4: International Trade			
<ul style="list-style-type: none"> • Why is trade beneficial? • Who benefits from trade? • What can be done for those who lose from trade? <ul style="list-style-type: none"> • What are the potential disagreements about the gains from trade? • How have different countries approached trade policy in the past? • Why do we have multilateral trade negotiations (i.e. why don’t countries open up unilaterally)? 			
Tu. 26 Feb.	Basic Trade Theory	- K&W, Chapter 17.	HW#7: Environmental Economics
Th. 28 Fe.	Basic Trade Theory (contd.)	- Trade policy debates / paradigms - Todaro & Smith, chapter 13.	
Tu. 5 Mar.	Discussion day – the food price crisis	- Timmer, 2010, “Reflections on Food Crises Past” - Rashid et al. 2007, “Grain marketing parastatals in Asia: results from six case studies”.	HW#8: Trade

		- Global Hunger Index 2011	
Part 5: Short and Medium Run Macroeconomics • Recession • Aggregate Expenditure • Stimulus • Fiscal Policy • Monetary Policy • Inflation • Deficits and Debts • Debt, equity, leverage and balance sheet recessions • Bailouts			
Th. 7 Mar.	Macro	Course notes / TBD	
Tu. 12 Mar.	More Macro	Course notes / TBD	
Th. 14 Mar.	Concluding Session – recap and revisit.	<ul style="list-style-type: none"> - Adam Smith, 1776. <i>An Enquiry into the Nature and Causes of the Wealth of Nations</i>. pp 1-11. - Ha Joon Chang, 2007. “Kicking away the ladder: the “real” history of free trade”. - Dani Rodrik, 2007, <i>One Economics, Many Recipes</i>, pp. 1-6, 195-212. - Milton Friedman, 1962, <i>Capitalism and Freedom</i>, Introduction and Chapter 2: The role of government in a free society. 	