

EC 373

Economics of Latin America

Fall 1999

T,Th 9:00
Fulton 425

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Short Description of the Course:

We will analyze economic issues arising in Latin America from the interaction of national economies with the global economy and from the interaction of states with markets. By grappling with specific challenges facing contemporary policymakers in Latin America, students will hone the tools of technical economic analysis which they learned in earlier coursework.

Prerequisites:

All 300-level courses in the Economics Department require at least one of the intermediate theory courses. EC 373 will draw on the skills developed in intermediate micro theory. Intermediate macro theory need not have been taken before taking this course, although taking it concurrently may be helpful. Some background in econometrics will also be helpful, as will the ability to read Spanish, but neither is required.

Thematic Outline:

Redefining Borders: National and Global Economies, States and Markets

The Challenging Context

Patterns of Poverty and Inequality in Latin America

Poverty, Inequality, and Growth

Income and Assets: Education, Microfinance, and Microenterprise

Global Economy, the State and the Market: Themes in L.A. Economic History

Export-led Growth and Decline

Import-Substituting Industrialization

Debt and the Crisis of the 1980s

The Neoliberal Reforms

Current Perspectives on Insertion into the Global Economy

Trade Liberalization

Capital Flows

Current Perspectives on the State and the Market

Macroeconomic Framework

Public Sector Reform, Privatization and Deregulation

Governance

Readings:

We will use a wide variety of readings. Some are technically demanding studies taken from leading economics journals:

- *American Economic Review*
- *Economic Development and Cultural Change*
- *Journal of Development Economics*
- *Journal of Economic Perspectives*
- *World Development*

Others are policy-oriented analyses of current trends, such as those prepared by the Inter-American Development Bank and the Economic Commission for Latin America and the Caribbean. Others are “textbook” readings used for introductory purposes or to give historical perspective.

Students are asked to purchase a coursepack and three books which are available at the bookstore:

- Eliana Cardoso and Ann Helwege, *Latin America's Economy: Diversity, Trends, and Conflicts*, Cambridge, MA: MIT Press, 1992.
- Rosemary Thorpe, *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century*, Baltimore: Johns Hopkins University Press, 1998.
- Inter-American Development Bank: *Facing Up to Inequality in Latin America*, Baltimore: Johns Hopkins University Press, 1998.

Several other readings must be downloaded from the web, as noted below.

Course Requirements:

Students' grasp of the material will be evaluated through ongoing class participation as well as through two midterm exams, to be given on October 12 and November 16, and a final exam, to be given on the morning of December 15. Attendance at all sessions is expected; if it is necessary to miss a class, please email me. The final exam will be given only at the time set by the Dean's Office; students should keep this date in mind when making travel plans.

This course is designated “writing-intensive.” Roughly one-third of the final course grade (see below) will be assessed on the basis of a semester-long study of a specific problem confronting policymakers in a single Latin American country. Each student will be asked to solve one such problem. We will form working groups of students studying different problems of a single country (e.g., a Mexico group) or similar problems in different countries (e.g., a group on short-term capital flows). Members of these groups will be encouraged to work together in defining problems and refining proposals. Ultimately, however, each student will be responsible for an individual policy position paper. The paper will be due on November 2. Members of the class will review one another's papers, then each student will be given a chance to revise and resubmit his or her proposal. The revised paper will be due on December 2.

Grading:

First midterm exam, 12 October, 20%

Second midterm exam, 16 November, 20%

Final exam, 15 December, 25%

Research project, 2 November and 2 December, 30%

Ongoing participation, 5%

Reading List:

There may be some adjustments to the reading list as new articles become available.

I. Redefining Borders: Nation and World, State and Market

United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), Economic Survey of Latin America and the Caribbean 1998-1999, August 1999, pp. 1-29. Using an internet browser and the Adobe Acrobat Reader, download this document in either English or Spanish from the ECLAC website, <<http://cepal.org/index1.html>>. This is required reading.

Inter-American Development Bank (IADB). Economic and Social Progress in Latin America 1997: Latin America After a Decade of Reforms, Part 2: "A Decade of Structural Reforms: All Pain and No Gain?" pp.31-86. On reserve at O'Neill; required reading.

ECLAC. Preliminary Overview of the Economies of Latin America and the Caribbean 1998, December 1998. On reserve at O'Neill; recommended background reading.

II. The Challenges: Poverty, Inequality, and Growth

Patterns of Poverty and Inequality

ECLAC. Social Panorama of Latin America 1998, Chapter 2, "La pobreza a fines de los años noventa," available at: <<http://cepal.org/index1.html>>. This document should be available in English by September 9. If it is not, students may substitute the English summary published in ECLAC Notes, May 1999: <<http://cepal.org/English/news/icepa10a.html>>.

IADB. Facing Up to Inequality in Latin America: Economic and Social Progress in Latin America 1998-99, Chapter 1, "Magnitude of Inequalities," pp.11-32, and Chapter 3, "Inequality and the Family," pp.57-84.

Poverty, Inequality, and Growth

Nancy Birdsall, David Ross, and Richard Sabot, "Inequality and Growth Reconsidered: Lessons from East Asia," World Bank Economic Review, September, 1995, pp.477-508.

Klaus Deininger and Lyn Squire, "New Ways of Looking at Old Issues: Inequality and Growth," *Journal of Development Economics*, December 1998, pp.259-287. This can be downloaded using any computer in the bc.edu domain. Go to: <http://www.elsevier.com:80/homepage/sae/econbase/devtec/> and follow the links to "complete papers online" for December 1998.

Income and Assets: Education, Microfinance and Microenterprise

IADB. Facing Up to Inequality in Latin America, Chapter 2, "Labor Income Inequality and Education," pp. 37-56.

Edward Funkhouser, "Changes in the Returns to Education in Costa Rica," *Journal of Development Economics*, December 1998, pp. 289-317. Download the paper from: <http://www.elsevier.com:80/homepage/sae/econbase/devtec/>.

David Bornstein, "The Barefoot Bank with Cheek," *Atlantic Monthly*, December 1995, pp. 40-47. Found in the coursepack.

Douglas Marcouiller, Verónica Ruiz de Castilla, and Christopher Woodruff, "Formal Measures of the Informal-Sector Wage Gap in Mexico, El Salvador, and Brazil," *Economic Development and Cultural Change* Jan. 1997, pp. 367-392. Found in the coursepack.

III. Nation and World, State and Market: Themes in 20th Century Latin American Economic History

Export-led Growth and Decline: 1900-Mid-century

Cardoso and Helwege, Chapter 2, "Historical Roots."

Thorp, Chapters 3 and 4, "The Early 20th Century: Capital, Export, and Institutions" and "Dislocation and Experiment: 1914-1945."

Import-Substituting Industrialization

Thorp, Chapters 5 and 6, "Industrialization and the Growing Role of the State: 1945-73" and "Growth and Emerging Disequilibria: 1945-73."

Cardoso and Helwege, Chapter 4, "From Import Substitution to Trade Liberalization."

Debt and the Crisis of the 1980s

Thorp, Chapter 7, "Debt-led Growth, Disaster and Redirection after 1973."

Cardoso and Helwege, Chapter 5, "Debt."

The Neoliberal Reforms

Thorp, Chapter 8, "Performance and Policymaking under the New Paradigm."

Joseph Ramos, "Neo-liberal Structural Reforms in Latin America: The Current Situation," *CEPAL Review*, August 1997, pp.15-39. Found in the coursepack.

IV. Current Perspectives on Insertion into the Global Economy

Trade Liberalization

Paul Krugman, "Protection in Developing Countries," in Rudiger Dornbusch, editor, *Policymaking in the Open Economy*, New York: Oxford University Press, 1993, pp. 127-48. Found in the coursepack.

Robert Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, Fall 1998, pp.31-50. Found in the coursepack.

Ann Harrison and Gordon Hanson, "Who Gains from Trade Reform? Some Remaining Puzzles," *Journal of Development Economics*, June 1999, pp.125-54. Download from: <http://www.elsevier.com:80/homepage/sae/econbase/devvec/>.

Capital Flows

Maurice Obstfeld, "The Global Capital Market: Benefactor or Menace?" *Journal of Economic Perspectives*, Fall, 1998, pp.9-30. In coursepack.

Brian Aitken and Ann Harrison, "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela," *American Economic Review*, June 1999, pp. 605-618. Found in the coursepack.

V. Current Perspectives on the State and the Market

World Bank, "The Evolving Role of the State," Chapter 1 in *World Development Report 1997*, pp. 19-28. Found in the coursepack.

Macroeconomic Framework

Cardoso and Helwege, Chapters 6 and 7, "Inflation," and "Stabilization."

Manuel Pastor and Carol Wise, "Stabilization and its Discontents: Argentina's Economic Restructuring in the 1990s," *World Development*, March 1999, pp. 477-503. Found in the coursepack.

Public Sector Reform, Privatization and Deregulation

Pedro-Pablo Kuczynski, "Privatization and the Private Sector," *World Development*, January 1999, pp.215-224. Found in the coursepack.

William Gruben and Robert McComb, "Liberalization, Privatization, and Crash: Mexico's Banking System in the 1990s," *Economic Review of the Federal Reserve Bank of Dallas*, First Quarter 1997, pp. 21-30. Found in the coursepack.

Martin Rama, "Public Sector Downsizing: An Introduction," *World Bank Economic Review*, January 1999, pp.1-22.

Governance

Nauro Campos and Jeffrey Nugent, "Development Performance and the Institutions of Governance: Evidence from East Asia and Latin America," *World Development*, March 1999, pp.439-452. In coursepack.

Daniel Kaufmann, Arat Kraay, and Pablo Zoido-Lobaton, "Governance Matters," mimeo, May 1999.