

Economic Theories of Globalization, Spring 2009

Tuesdays and Fridays, 8:30-9:50

Place: Vester 10-B24

Instructor: Jørn Fredsgaard Sørensen

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MSc (1995) Politics, from University of Århus, Denmark

DIS instructor (2004-06, and again since 2008)

Chief Consultant (since 2008), Eksport Kredit Fonden

Senior advisor (2006-08), Danida Business Sector Program, Vietnam

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Introduction:

Globalization affects all our lives and is a hotly debated topic. Some see globalization as highly beneficial providing unprecedented wealth and opportunities to reduce poverty.

Others see globalization as the evil cause of poverty in developing countries, job exports from rich countries, and increasing inequality all over the globe.

Course objectives:

This course aims to help students to critically understand the complex processes of globalization, especially the links between economic integration and international competitiveness. To this end students will:

(1) Get a 'tool-box' of analytical frameworks and economic theories of international trade and its relation to

- Sources of wealth
- Distribution and Equality
- Outsourcing
- Productivity, Growth and Competitiveness

(2) Apply the tools and theories to analyze the main features of globalization in class discussions on

- long-term trends and stylized facts
- impact on various aspects of our daily lives
- globalization-related 'hot topic' news events
- policy strategies to cope with challenges of globalization, in both developing countries and in developed economies

(3) Understand some of the economic processes of globalization and demonstrate this understanding when faced with models and case studies in the mid-term and final exams.

In addition to a textbook focused on the theory of international economics, the course will be based on material from international organizations such as the World Bank, the IMF, and the United Nations.

Prerequisites:

Two courses in macroeconomics, one introductory and one intermediate, and one introductory course in microeconomics.

Grading elements:

Midterm exam: 25 %

Class participation: 35 % - Class participation also covers class presentations of readings/projects, homework

Final exam: 40 %

Field Studies:

1: Wednesday February 25, 13-17 pm. Details TBA

2: Wednesday April 22, 8:30 am – 12.30 pm. Details TBA.

Outline of Schedule

1. Thursday January 22 (6-9pm) in Room 7-31: Introduction – Denmark and USA in the global marketplace

Key Learning Objectives:

Fundamental differences between Denmark and USA, different ways to prosperity
Course overview: Structure, contents, learning objectives, grading process

2. Thursday January 22 (6-9pm) in Room 7-31: Globalization – Definitions and history

Questions to think about:

What is globalization? What does globalization mean to me personally?

Key Learning Objectives:

Different dimensions of globalization: flows of goods, factors, info and people; institutions.

Readings:

Binder no. 2: Michael Bordo: *Globalization in Historical Perspective*

Binder no. 3: Francois Bourguignon et al: *Making Sense of Globalization*, pp.1-4, 11-32

3. Friday January 23: Comparative advantage in the Ricardian model

Key Learning Objectives:

Ricardian model of comparative advantage based on different relative productivities
Understanding the Production Possibility Frontier, Indifference Curves, Relative supply and Demand Curves, Transport Costs and Non-traded Goods

Readings:

Krugman & Obstfeld Ch. 3

Tuesday January 27: No class

Friday January 30: No class

4. Tuesday February 3: Trade and Growth – the debate

Class discussion:

Does increased trade foster growth?

Readings:

Binder no. 4: David Dollar and Aart Kraay: *Trade, Growth, and Poverty*

Binder no. 5: Nancy Birdsall and Amar Hamoudi: *Commodity Dependence, Trade, and Growth: When openness is not enough*

5. Tuesday February 10: Comparative advantage in the Heckscher-Ohlin model

Key Learning Objectives:

Stolper-Samuelson Theorem: effect of goods prices on factor prices

Heckscher-Ohlin Theorem: effect of factor endowments on trade patterns

Factor-price equalization Theorem: effect of trade on domestic factor prices

Rybczynski Theorem: effect of changes in factor endowments on production and trade

Distributional effects of winners and losers from trade

Readings:

Krugman & Obstfeld Ch. 4

6. Friday February 13: The Specific Factors Model

Key Learning Objectives:

Production functions, allocation of inputs to production, trade and income distribution

Readings:

Krugman & Obstfeld Ch. 3

7. Tuesday February 17: Trade, Poverty and Inequality

Key Learning Objectives:

The facts about the development of poverty and inequality, linking inequality to trade and other factors

Readings:

Binder No 6: International Monetary Fund, *Globalization and Inequality*, World Economic Outlook, October 2007

Binder No 7: Kevin H O'Rourke: *Globalization and Inequality, Historical Trends*, CEPR Discussion Paper 2865, June 2001.

8. Friday February 20: Standard Trade Model

Key Learning Objectives:

Effects of growth and price changes, terms of trade, immiserizing growth, effects of tariffs and subsidies

Readings:

Krugman & Obstfeld Ch. 5

9. Tuesday February 24: International factor movements

Key Learning Objectives:

Factors driving migration and distributional effects
International investment flows as inter-temporal trade
Theory and practice of multinational firms

Readings:

Krugman & Obstfeld Ch. 7

Binder No. 9: International Monetary Fund, the globalization of labor

Wednesday February 25, 13-17 pm: Field Study, details tba

10. Friday February 27: Financial Globalization

Key Learning Objectives:

What should we expect financial markets to do for growth – and what are they actually doing?

Readings:

Binder no. 9: International Monetary Fund, *Financial Globalization – Beyond the Blame Game*, Finance & Development, March 2007

Binder no. 10: International Monetary Fund, *The Paradox of Capital*, Finance & Development, March 2007

11. Tuesday March 3: The Climate Challenge

Key Learning Objectives:

Assessing the challenge from the world's emissions of greenhouse gasses

Readings:

Binder no. 11: McKinsey, The Carbon Productivity Challenge.

12. Friday March 6: Mid-term exam

13. Tuesday March 10: Economies of scale and intra-industry trade

Key Learning Objectives:

Concepts of internal and external economies of scale, concept of imperfect competition, intra- and inter-industry trade, external economies and dynamic comparative advantage

Readings:

Krugman & Obstfeld Ch. 6

14. Friday March 13: Growth Accounting

Key Learning Objectives:

Income and Growth accounting, interpreting total factor productivity

Readings:

Binder no. 12: David Miles, Understanding the Wealth of Nations, Chapter IV

Binder No. 13: The EU KLEMS Productivity Report

15. Tuesday March 17: Growth and Structural Change

Key Learning Objectives:

Stages of development, industrialization and de-industrialization, different paths to modernity

Readings:

Binder no. 14: UNCTAD: Industrialization, *Trade and Structural change*, ch. V of Trade and Development Report 2003

Binder No. 15: McKinsey Quarterly, *China and India - The race to growth*, May 2004

16. Friday March 20: Picking winners

Key Learning Objectives:

Readings:

Your chosen candidates on MyC4

Saturday March 21 – Monday April 13: Study Tours and Travel Break

17. Tuesday April 14: Institutions as a source of competitiveness

Key Learning Objectives:

The role of institutions in development

Readings:

Binder no. 16: International Monetary Fund, *Growth and Institutions*

18. Friday April 17: Business environment as a source of competitiveness

Key Learning Objectives:

The role of business environment in development

Readings:

Binder no. 17: WB, 2005: Business Environment and Comparative Advantage in Africa

19. Tuesday April 21: Reforming the Business environment

Key Learning Objectives:

How to foster reforms of the business environment

Readings:

Binder no. 18: USAID, *The Vietnam Provincial Competitiveness Index 2005*

Wednesday April 22, 8:30 am – 12.30 pm: Field Study, details tba

20. Friday April 24: Outsourcing I

Key Learning Objectives:

Does outsourcing pay? Why are the benefits different for US and Germany? What are the effects on the distribution of income? What are the drivers?

Readings:

Binder No. 19: McKinsey 2003: *Offshoring: Is It a Win-Win Game?*

Binder No. 20: McKinsey 2004: *Can Germany win from Offshoring?*

21. Tuesday April 28: Outsourcing II

Key Learning Objectives:

How will outsourcing look like in the future? What will the challenges be?

Readings:

Binder No. 21: Richard Baldwin, *Globalisation: the great unbundling(s)*

22. Friday May 1: Lesson available for additional topic

23. Tuesday May 5: Review Lesson

Final Exam, May 11-15, TBA

Reading list:

1. Textbook. Paul Krugman and Maurice Obstfeld, International Economics, Addison Wesley, 7th ed. 2005.
Printed in compendium: Chapter 3 on “Specific Factors” from older version of textbook
2. Michael Bordo: “Globalization in Historical Perspective”, *Business Economics*, National Association for Business Economics, January 2002. ISSN: 0007-666X
Printed in compendium
3. Francois Bourguignon et al: *Making Sense of Globalization*, Centre for Economic Policy Research, Policy paper No. 8, May 2002. Pp.1-4, 11-32. ISBN: 1898128677
Printed in compendium
4. David Dollar and Aart Kraay: “Trade, Growth, and Poverty”, *Finance & Development*, International Monetary Fund. September 2001, Volume 38, No 3 ISSN: 0015-1947
<http://www.imf.org/external/pubs/ft/fandd/2001/09/dollar.htm>
5. Nancy Birdsall and Amar Hamoudi: *Commodity Dependence, Trade, and Growth: When “openness” is not enough*, Center for Global Development, Working Paper No. 7, May 2002. <http://www.cgdev.org/content/publications/detail/2783>
6. International Monetary Fund, *Globalization and Inequality*, World Economic Outlook, October 2007: pp.135-171. <http://www.imf.org/external/pubs/ft/weo/2007/02/pdf/text.pdf>
7. Kevin H O’Rourke (2001) ‘Globalization and Inequality: Historical Trends’. Revised version of a paper presented at the Annual World Bank Conference on Development Economics, 1-2 May, 2001.
http://www.tcd.ie/Economics/TEP/2001_papers/TEPNo9KO21.pdf
8. International Monetary Fund, *The Globalization of Labour*, World Economic Outlook, April 2007. <http://www.imf.org/external/pubs/ft/weo/2007/01/pdf/c5.pdf>
9. International Monetary Fund, Financial Globalization – Beyond the Blame Game, *Finance & Development*, March 2007.
<http://www.imf.org/external/pubs/ft/fandd/2007/03/kose.htm>
10. International Monetary Fund, The Paradox of Capital, *Finance & Development*, March 2007 <http://www.imf.org/external/pubs/ft/fandd/2007/03/prasad.htm>
11. McKinsey, The Carbon Productivity Challenge, McKinsey Global Institute, June 2008.
http://www.mckinsey.com/mgi/reports/pdfs/Carbon_Productivity/MGI_carbon_productivity_full_report.pdf
12. David Miles, “The Increasing Wealth of Nations”, Ch. IV in *Macroeconomics*:

Understanding the Wealth of Nations, Wiley, 2002: 56-83. ISBN: 0471988456

Printed in compendium

13. Bart van Ark, Mary O'Mahony and Gerard Ypma, *The EU KLEMS Productivity Report*, Issue No. 1, 2007. http://www.euklems.net/data/eu_klems_productivity_report.pdf

14. UNCTAD: Industrialization, Trade and Structural change, ch. V of Trade and Development Report 2003. http://www.unctad.org/en/docs/tdr2003ch5_en.pdf

15. Diana Farrell, et al. "China and India - The race to growth", *McKinsey Quarterly* December 2004: 110-119. ISSN: 0047-5394

[http://www.mckinseyquarterly.com/China and India The race to growth 1487](http://www.mckinseyquarterly.com/China_and_India_The_race_to_growth_1487)

(register to log in and read)

16. International Monetary Fund, *Growth and Institutions*, World Economic Outlook, April 2003. <http://www.imf.org/External/Pubs/FT/weo/2003/01/pdf/chapter3.pdf>

17. World Bank, 2005: Business Environment and Comparative Advantage in Africa

[http://info.worldbank.org/etools/docs/library/211251/Businessin Africa Eifert.pdf](http://info.worldbank.org/etools/docs/library/211251/Businessin_Africa_Eifert.pdf)

18. VCCI/VNCI, 2005, VNCI Policy Paper #4, *The Vietnam Provincial Competitiveness Index 2005*, VCCI/VNCI, Ha Noi, Vietnam. Pp.1-42, 58-64

[http://www.pcvietnam.org/download_file.php?file=1159774644_Full%20Report%202005.p
df&uploadname=report](http://www.pcvietnam.org/download_file.php?file=1159774644_Full%20Report%202005.pdf&uploadname=report)

19. "Offshoring: Is It a Win-Win Game?" *McKinsey Global Institute Perspective*. McKinsey & Company, August 2003.

http://www.mckinsey.com/mgi/reports/pdfs/offshore/Offshoring_MGI_Perspective.pdf

20. Diana Farrell, "Can Germany Win from Offshoring?" *McKinsey Global Institute Perspective*, McKinsey & Company, November 2004.

[http://www.mckinsey.com/mgi/reports/pdfs/offshore/MGI_Whitepaper_German_Offshoring.
pdf](http://www.mckinsey.com/mgi/reports/pdfs/offshore/MGI_Whitepaper_German_Offshoring.pdf)

21. Richard Baldwin, *Globalisation: the great unbundling(s)*, Contribution to the project Globalisation Challenges for Europe and Finland, September 2006.

<http://www.unescochair.ns.ac.yu/sr/docs/baldwin2006Globalisation.pdf>