

# LATIN AMERICAN ECONOMIES

University of New Mexico

Economics 421 - Fall 2002

DSH 128, Tues/Thurs 12:30-1:45 PM

Prof. Melissa Binder: Office hours Thurs. 2:00-4:00 PM and by appointment

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## Course Description

This course will cover economy-wide issues that are essential for understanding the development and recent experience of Latin American countries. We begin with a crash course on the fundamentals of open-economy macroeconomics, which immediately allows us to understand balance of payments and exchange rate crises, hyper-inflation and dollarization. With this new arsenal of tools, we systematically survey the economic policies and experiences of import-substituting industrialization (1950s-1970s), economic populism (various periods) and the debt crisis (1980s). The completion of this survey (by mid-term) brings us to the current period in which the economic paradigm is structural reform, also known as neoclassical reform, structural adjustment, and the Washington consensus. Structural reform policies involve reducing the role of the state through fiscal reform (cutting the government deficit), de-regulation and privatization, and giving freer reign to markets in the areas of exchange rate policy, trade liberalization and capital mobility. In the second half of the semester we will analyze the theory and practice of these policies. The aim of the course is to give students a clear grasp of macroeconomic issues in Latin America and a critical understanding of the potential and limits of current structural reform programs.

## Course Requirements

- 1. E-mail account.** Students providing their e-mail addresses will be added to the list ECON421-L. Course announcements and reminders will be posted as needed. Please note that anything you send to the list will be forwarded to all of your classmates. If you want to send a message to the instructor, use my personal e-mail address (see above).
- 2. Class discussions.** There are four classes set aside for discussion. To facilitate these discussions, students must submit at least five discussion questions based on the readings **by e-mail by 11:00 AM** on the day of a scheduled discussion (see course schedule below). Send this email to me (mbinder@unm.edu) and not the ECON421-L list. Your submitted questions and informed participation in class discussions count for 10% of the final grade.
- 3. Readings.** There will also be assigned readings for topics covered in class, but not discussed. All required reading (aside from the textbook) is on reserve at Parish Library in the BASIC READINGS folder. Readings marked by an \* are required for graduate students. These are on reserve either in the GRADUATE READINGS folder, or, in the case of books, under the book name. Readings marked by are required for students who have not studied intermediate undergraduate macroeconomics and are on reserve in the TOOLS folder.
- 4. Three problem sets.** These are designed to help students understand topics in macroeconomics and trade theory by manipulating economic identities, working with data and solving problems. You may work in groups of up to four: each group should hand in one assignment. The problem sets count for 15% of the final grade.
- 5. Two papers.** A five-page paper due right after the mid-term break and a 6-8 page (12-15 page for graduate students) paper due the last week of classes. Papers must be double spaced with 1" margins all around and a legible font. Proper citations and bibliography are required: use any assigned journal article as a style guide. You must cite your source even if you are paraphrasing. Plagiarism will not be tolerated. The short paper is worth 10% of the final grade; the longer paper is worth 20%.

For the five-page paper, you will either (a) evaluate how well Brazil, Chile, Nicaragua, and Mexico countries not usually associated with populism fit the Macroeconomics of Populism paradigm, or (b) compare and contrast a debt crisis from Latin America's past with the 1980s debt crisis.

For the end-of-term paper, you will evaluate the structural reform program carried out in one country by comparing before- and after- economic indicators. This will require two research tasks: first, finding out what policies were actually implemented, and second, compiling the economic indicators for the before- and after-periods. Graduate students are responsible for analyzing the experience of two Latin American countries with substantially different policies over most of the time period. Please check with me to be sure that the countries you choose meet this criterion.

- 6. Three equally weighted non-cumulative exams** on Sept. 27, Oct. 22 and Dec. 5. The exams are each worth 15% of the course grade. I will hand out study questions in the week preceding each exam. The second two exams will be drawn directly from the study questions.

### Required Texts

Franko, Patrice. *The Puzzle of Latin American Economic Development*. (New York: Rowman and Littlefield 1999).

BASIC READINGS. A folder of readings on reserve at Parish Library under Binder 33.

GRADUATE READINGS. Required for graduate students, on reserve under Binder 34.

### Highly recommended

TOOLS. Readings on intermediate macro and trade theory, on Parish reserve under Binder 35.

Inter-American Development Bank. *Economic and Social Progress in Latin America*, 1998-99 or later report.

### Course schedule

#### **INTRODUCTION**

Aug. 20, 21: Overview of course and economic history of LA

Franko, Chapter 2

No class on August 27. Note that there will be a make-up class (consisting of the first exam) on Friday, Sept. 27.

#### **CRASH COURSE IN OPEN-ECONOMY MACRO, WITH REFERENCE TO LATIN AMERICAN EXPERIENCES**

Aug. 29, Sept. 3, 5: NIPA, BOP (National Income and Product Accounts, Balance of Payments)

Mankiw, pp. 54-67 and Chapter 7 to p. 188

\*Dornbusch, Rudiger. Chapter 3: Balance of Payments Issues. In *The Open Economy: Tools for Policymakers in Developing Countries*. (NY: Oxford University Press 1988).

#### **Tuesday, Sept. 10: Problem set #1 due.**

Sept. 10: Inflation

Franko, pp. 112-122.

Mankiw, Chapter 6

Sept. 12, 17, 19: Exchange rates, currency boards, dollarization

Federal Reserve Bank of Dallas. 1995. Can Currency Boards Prevent Devaluation and Financial Meltdowns? *The Southwest Economy* 1995(4).

\*Helmers, Leslie. The Real Exchange Rate. In *The Open Economy* op cit. pp. 10-33.

#### **Thursday, Sept. 19: DISCUSSION What happened in Argentina and what about dollarization?**

Write questions on the following readings ONLY:

Birdsall, N. 2002. What Went Wrong in Argentina? Center for Global Development. Remarks, Center for Strategic and International Studies Conference, Argentina: Weighing the Options. January 29<sup>th</sup>.

Weisbrot, M., and D. Baker. 2002. When Good Parents Go Bad: The IMF and Argentina, A Reply to Nancy Birdsall's What Went Wrong in Argentina? Center for Economic and Policy Research, Briefing Paper.

Marconi R., Salvador. 2002. Ecuador's dollarization: the good, the bad and the ugly. Escuela Politecnica Nacional Working Paper.

\*Edwards, Sebastian. 2001. Dollarization and Economic Performance: An Empirical Investigation. NBER Working Paper #8274.

#### **Tuesday, Sept. 24: Problem set #2 due.**

**FRIDAY, SEPT. 27: EXAM #1** (place and time to be announced).

## **FROM ISI TO THE LOST DECADE**

Sept. 24, 26, Oct. 1, 3: Import-Substituting Industrialization and the Macroeconomics of Populism

Franko, Chapter 3

Dornbusch, Rudiger and Sebastian Edwards, eds. *The Macroeconomics of Populism in Latin America*. (Chicago: University of Chicago Press, 1991): Chapters 1 and 9.

\*Lall, Sanjaya. Is Dependence a Useful Concept in Analysing Underdevelopment? *World Development* 1975 3(11&12): 799-810.

\*Baer, Werner. "The Economics of Prebisch and the ECLA." *Economic Development and Cultural Change* 10(2, 1961/62): 69-82.

### **Thursday, Oct. 3: DISCUSSION Is ISI inherently flawed?**

Write questions on the following readings ONLY:

World Bank. "Overview." World Development Report 1991. (Washington, DC: World Bank): pp. 1-12.

Rodrik, Dani. Getting Interventions Right: How South Korea and Taiwan Grew Rich. *Economic Policy* (April 1995): 55-107.

Oct. 8 The Debt Crisis

Franko, Chapter 4

FALL BREAK, Thursday, Oct. 10: No classes.

### **Tuesday, Oct. 15: Mid-term paper due.**

## **THE NEOCLASSICAL RESURGENCE**

Oct. 15: The Washington Consensus

Oct. 15,17: Stabilization programs

Franko, Chapter 5

\*Aspe, Pedro. "Macroeconomic Adjustment and Social Consensus: The Mexican Stabilization Program (1983-1991)." In his *Economic Transformation the Mexican Way*. (Cambridge, Massachusetts: MIT Press 1993): pp. 1-60.

### **TUESDAY, OCT. 22: EXAM #2**

Oct. 24, 29, 31, Nov 5: Trade theory, optimistic and pessimistic views, regional trade agreements

Franko, Chapter 8

Tregarthen, Timothy. Chapter 11: Competitive markets and international trade. *Microeconomics*. (NY: Worth 1996): 248-69.

\*Hirschman, Albert O. "A Generalized Linkage Approach to Development, with Special Reference to Staples." *Economic Development and Cultural Change* 25(Supplement 1977): 67-98.

### **Thursday, Oct. 31: Problem set #3 due**

### **Tuesday, Nov. 5: DISCUSSION --Some cautionary tales about free trade.**

Write questions on the following readings ONLY:

Hunt, Shane. "Growth and Guano in 19th Century Peru." In Roberto Cortés Conde and Shane Hunt, eds. *The Latin American Economies: Growth and the Export Sector 1880-1930*. (New York: Holmes and Meier Publishers, 1985): pp. 255-318.

\*Williams, Robert. *Export Agriculture and the Crisis in Central America*. (Chapel Hill: University of North Carolina Press, 1986): Chapters 4, 5 & 6.

Nov. 7, 12, 14, 19, 21: Privatization and Financial and Capital Market Liberalization

Franko, Chapters 6 & 7

\*Sánchez, Manuel, Rossana Corona, Luis Fernando Herrera and Otoniel Ochoa. "A Comparison of Privatization Experiences: Chile, Mexico, Colombia and Argentina." In Sánchez and Corona, eds. *Privatization in Latin America* (Washington, DC: Inter-American Development Bank/Johns Hopkins University Press 1993): 1-40.

**Thursday, Nov. 21: DISCUSSION Issues in Globalization.**

Write questions on the following readings ONLY:

Greider, William. 1997. Selection to be announced from *One World, Ready or Not* (Touchstone).

Stiglitz, Joseph. 2000. Capital Market Liberalization, Economic Growth and Instability. *World Development* 28(6): 1075-86.

\*Garuda, Gopal. 2000. The Distributional Effects of IMF Programs: A Cross-Country Analysis. *World Development* 28(6): 1031-51.

THANKSGIVING BREAK: No classes Nov. 26 & Nov. 28

**Tuesday, Dec. 3: Policy Analysis paper due.**

**Tuesday, Dec. 3: DISCUSSION—Is structural reform working?**

No discussion questions required

**THURSDAY, DEC. 5: EXAM #3**