

# Globalization, Incomes and Inequality

## Economics 4080, Fall 2009

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1038 IAB, office hours Weds 1-2, 4-4037  
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This course seeks to understand global economic integration and its impact on levels and distribution of income within and between countries.

### Prerequisites

Knowledge of microeconomics and macroeconomics at the intermediate level is required, as well as the mathematics underpinning these (i.e. through Calculus III). Econometrics preparation is very helpful for the course; the TA will review some basic econometric topics.

### Assignments and Grading

- Weekly problem sets. (30 percent of grade.)  
Available by Wednesday noon on Courseworks, due the following Monday noon to the TA by hand, by email, or in the TA's folder.  
No late problem sets accepted; no exceptions.  
Lowest two grades dropped.
- In class quizzes. (20 percent of grade.)  
*Roughly* one per week, takes 5-10 minutes.  
Consult your notes and papers, but **not** your neighbor.  
*Easy* if you are following the class and doing the problem sets.  
Lowest two grades dropped.
- In-class midterm scheduled for October 26. (20 percent of grade.)
- Comprehensive final per registrar schedule. (30 percent of grade.)

### Readings

Cost: \$0.00.

Readings should be done *before* the corresponding class.

The readings for the course will include a mix of theoretical, empirical, and policy-oriented articles. One difficulty in selecting articles for a course like this is that modern professional and policy discussions of the consequences of globalization inevitably draw on the full range of theoretical frameworks – frameworks that you will come to understand as we move through the course but can't be expected to understand at the outset. This has a consequence. The course will plunge quickly into theory to bring you

up to speed. The early empirical and policy pieces will inevitably lean a bit more heavily toward description than analysis. As we move through the course, our ability to bring theory and empirical analysis together will grow. You will gain a real feel for what discussions of these issues at the highest professional and political levels looks like.

**Lecture slides** will be available on *Courseworks* in redacted form. They are not a close substitute for attending class.

**Theory:** I will be preparing notes for many of the theoretical topics throughout the term. These will be available via *Courseworks*.

**“Notes”:** On my teaching web page and on *Courseworks* you can find [Notes on Competitive Trade Theory](#) (originally written for a course I taught some years back at Harvard). You will find these helpful for a number of the topics we touch on, even when I make available notes on *Courseworks* that touch on related topics. NB: These *Notes* also cover some topics that are **not** required for the present course, so just look to them for more detail on topics we cover in class.

**All other readings** for the course, listed below, can be found in a Zip file on *Courseworks*.

If you would like to supplement these outlines with a textbook that covers some (not all) of the topics, you can get Krugman and Obstfeld, *International Economics*, 8<sup>th</sup> Edition; or Feenstra and Taylor, *International Economics*, 1<sup>st</sup> Edition. You may also enjoy Steven Brakman, Harry Garretsen, and Charles van Marrewijk, *The New Introduction to Geographical Economics*.

# Course Outline

## **Week 1      September 9, 14**

### **Introduction, World Trading Equilibrium, Consumer Optimum, Exchange Economy**

Leamer, Edward “A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman's *The World is Flat*,” *Journal of Economic Literature* 2007, 45:1.

Handouts Week 1

*Notes on Competitive Trade Theory*, Chapters 1,2

## **Week 2      September 16, 21**

### **Ricardian Model of Trade**

International Monetary Fund, “Globalization and Inequality,” Chapter 4 in *World Economic Outlook: Globalization and Inequality*, October 2007.

Lindert, Peter H. and Jeffrey G. Williamson, “Does Globalization Make the World More Unequal?” Working Paper version, October 5, 2001.

Handouts Week 2

*Notes on Competitive Trade Theory*, Chapter 3

## **Week 3      September 23, 28**

### **Review of Neoclassical Micro Underpinnings, Heckscher-Ohlin Model**

Krugman, Paul R. “What Do Undergrads Need to Know About Trade?” *American Economic Review*, Vol. 83, No. 2, (May, 1993), pp. 23-26.

Easterly, William “Channels From Globalization to Inequality: Productivity World Versus Factor World,” *Brookings Trade Forum*, 2004.

Handouts Week 3

*Notes on Competitive Trade Theory*, Chapters 1,2

## **Week 4      September 30, October 5**

### **Heckscher-Ohlin Model (cont.), Specific Factors**

Kremer, Michael, “Globalization of Labor Markets and Inequality,” *Brookings Papers on Economic Activity* 2008.

Krugman, Paul R. “Trade and Wages, Reconsidered,” *Brookings Papers on Economic Activity* 2008.

Handouts Week 4

*Notes on Competitive Trade Theory*, Chapters 4,5

## **Week 5      October 7, 12**

### **Monopolistic Competition**

Helpman, Elhanan, “The Structure of Foreign Trade,” *Journal of Economic Perspectives*, 2009, 13:2.

Hummels, David “Transportation Costs and International Trade in the Second Era of Globalization”, *Journal of Economic Perspectives*, Summer 2007.

Handouts Week 5

**Week 6      October 14, 19**  
**Heterogeneous Firms and Trade**

Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott, "Firms in International Trade," *Journal of Economic Perspectives*, 21:3, 2007.

Handouts Week 6

**Week 7A      October 21**  
**Economic Geography, Home Market Effects**

Krugman, Paul R. "The Increasing Returns Revolution in Trade and Geography," *American Economic Review*, 2009, 99:3, 561-571.

Venables, Anthony "Geography and International Inequalities: The Impact of New Technologies," *Journal of Industry, Competition and Trade*, 2001.

Handouts Week 7

**Week 7B      October 26**  
**Midterm in Class**

No readings.

**Week 8      October 28, November 4**  
**Multiple Equilibria, Development Traps**

Davis, Donald R. and David E. Weinstein, "Bone, Bombs, and Breakpoints: The Geography of Economic Activity," *American Economic Review*, 92:5, 2002.

Sachs, Jeffrey D., John W. McArthur, Guido Schmidt-Traub, Margaret Kruk, Chandrika Bahadur, Michael Faye, Gordon McCord, "Ending Africa's Poverty Trap," *Brookings Papers on Economic Activity*, 2004, No 1.

Handouts Week 8

**Week 9      November 9, 11**  
**International Migration**

Freeman, Richard B., "People Flows in Globalization," *Journal of Economic Perspectives*, vol. 20(2), pages 145-170, Spring 2006.

Pritchett, Lant, "Boom Towns and Ghost Countries: Geography, Agglomeration, and Population Mobility," *Brookings Trade Forum: 2006*.

Handouts Week 9

**Week 10      November 16, 18**  
**Oligopoly, Capital Mobility, and Multinational Enterprise**

Blonigen, Bruce A., "A Review of the Empirical Literature on FDI Determinants," *Atlantic Economic Journal*, 2005.

Feenstra, Robert C, 1998. "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, American Economic Association, vol. 12(4), pages 31-50, Fall.

Handouts Week 10

**Week 11      November 23, 25**  
**Offshoring, Outsourcing**

Blinder, Alan S., "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April 2006.

Blinder, Alan, "How Many US Jobs Might be Offshorable?" *World Economics*, 10:2, 2009.

Grossman, Gene, Esteban Rossi-Hansberg, "The Rise of Offshoring -- It's Not Wine for Cloth Anymore," Kansas City Federal Reserve Bank, 2006.

Trefler, Daniel "Service Offshoring: Threats and Opportunities", *Brookings Trade Forum: 2005*.  
Handouts Week 11

**Week 12A      November 30**  
**Trade, Unemployment, and Adjustment**

Davis, Donald R., "Does European Unemployment Prop up American Wages? National Labor Markets and Global Trade," *American Economic Review*, vol. 88, no. 3, June 1998.

Goldberg, Pinelopi Koujianou, and Nina Pavcnik, 2007, "Distributional Effects of Globalization in Developing Countries," *Journal of Economic Literature*, American Economic Association, vol. 45(1), pages 39-82, March.

Handouts Week

**Week 12B      December 2**  
**Trade and Growth**

Greenwald, Bruce, and Joseph Stiglitz, "Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries," *American Economic Review*, May 2006.

Lucas, Jr., Robert E., "On the Mechanics of Economic Development," *Journal of Monetary Economics* (1988). (All *except* Section 4).

Handouts Week 12

**Week 13      December 7, 9**  
**Trade and Growth (continued)**

Hallak, Juan Carlos and James Levinsohn, 2004, "Fooling Ourselves: Evaluating the Globalization and Growth Debate," *NBER Working Papers* 10244, National Bureau of Economic Research, Inc.

Handouts Week 13

**Week 14      December 16**  
**Trade and Growth (continued)**

Feyrer, James, "Trade and Income – Exploiting Time Series in Geography," Working Paper. 2009.

Gancia, Gina and Fabrizio Zilibotti, "Technological Change and the Wealth of Nations," *Annual Review of Economics*, 2009:1.

Handouts Week 14