

DARTMOUTH COLLEGE
Department of Economics

Professor Marion

Winter 2007

ECONOMICS 49: TOPICS IN INTERNATIONAL ECONOMICS

Class Meetings: Section 1, 10A: Tuesdays, Thursdays 10:00-12:00 p.m.
X-hour: Wednesdays 3:00 p.m.-4:05 p.m.

Section 2, 2A: Tuesdays, Thursdays 2:00 p.m.-4:00 p.m.
X-hour: Wednesdays 4:15 p.m.-5:20 p.m.

Office hours: Tuesdays 12:00 p.m. – 1:30 p.m., Thursdays 12:00 p.m.-1:30 p.m.
Also by appointment
Location: Rockefeller 325 (646-2511)

I. OBJECTIVES

This seminar covers topics in international economics, with a focus on international finance and open-economy macroeconomics. The goal of the seminar is to have participants learn about important economic policy issues. In the process, students will study and apply economic theory and empirical methods, develop an understanding of economic and political institutions, and gain knowledge about individual country experiences.

The first unit focuses on economic growth. Class discussions and student presentations will explore the underlying determinants of growth, with a special emphasis on empirical findings. Current research on the role of trade, geography and institutions in promoting growth will be studied. Seminar participants will learn how to estimate a growth regression for a cross section of countries and write up their regression results.

The second unit explores topics related to globalization. We will study cross-border equity flows, illegal immigration, outsourcing, and the unequal distributional effects of trade liberalization.

The third unit examines some topics in political economy. We will examine research on the economic determinants of international terrorism and the identification and performance of artificial states.

The fourth unit explores foreign direct investment (FDI). Topics covered include the effect of host-country corruption on the location decision of multinationals, and the effects of FDI on the host country's economy, with particular attention to possible

technological spillovers. Students will estimate a regression related to the location decision of U.S. multinational corporations.

The seminar concludes with a look at some topics related to emerging markets. Students will study recent empirical efforts to predict banking crises and currency crises. They will also look at forces that jumpstart and shape the reform process.

II. ASSIGNMENTS

Students should read the required reading before class and come to class prepared to discuss the reading. Class preparation and discussion are important parts of the seminar and contribute to learning. Class attendance is also important.

As mentioned in the previous section, each student will estimate a growth regression and a FDI regression under the guidance of the instructor. In addition, for the student-led papers presented in class, non-presenting students will bring to class that day a maximum one-page write up about the paper. The template for the write up is on blackboard. The template asks you to state the main hypothesis of the paper, briefly describe the empirical methodology for testing the hypothesis, and identify the main results.

In addition, students will work in pairs to present in class one or more of the assigned readings. Student presentations should be about 45 minutes. Presentations should be accompanied by powerpoint or pdf-formatted slides. During and after each presentation, other students will have the opportunity to raise questions and discuss issues raised by the paper.

Each student will also write a seminar paper of about 15 pages (not counting references, data, tables and figures). The paper can address any issue in international finance, open-economy macroeconomics or trade, but it is assumed that many papers will draw from issues covered in the seminar. Students should confer with the professor on a paper topic by January 25. A properly formatted excel spreadsheet containing (most of) the data to be used for the paper is due February 15. The paper is due on Wednesday, March 7 by 11 p.m.

The course grade will reflect the grades earned on the presentation(s) of the assigned readings (30%), the research paper (50%), and class participation (20%). Despite this weighting scheme, a passing grade on the paper is required to pass the course. Class participation is based on class attendance, class discussion, the two regression exercises, and the short paper write-ups. Students will be evaluated individually rather than as a group on each presentation.

III. CLASS SCHEDULE

Thursday, January 4	Organizational Meeting
Tuesday, January 9	Workshop: Growth
Thursday, January 11	Student Presentation: Trade & Growth
Tuesday, January 16	Student Presentation: Geography and Growth
Thursday, January 18	Student Presentation: Institutions and Growth
Tuesday, January 23	Student Presentation: Cross-Border Equity Flows
Thursday, January 25	Student Presentation: Illegal Immigration
Tuesday, January 30	Student Presentation: Outsourcing
Thursday, February 1	Student Presentation: Distributional Effects of Trade Liberalization
Tuesday, February 6	Student Presentation: International Terrorism
Thursday, February 8	Student Presentation: Artificial States
Tuesday, February 13	Student Presentation: FDI and Corruption
Thursday, February 15	Student Presentation: FDI and Spillovers
Tuesday, February 20	Student Presentation: Banking Crises
Thursday, February 22	Student Presentation: Jumpstarting Reforms
Tuesday, February 27	Workshop: Currency Crises
Thursday, March 1	Workshop: Writing a Paper in Economics
Tuesday, March 6	No class

Most readings are available on the internet and internet addresses are provided on the syllabus. An asterisk(*) indicates a required reading.

Unit 1: Growth

For January 4: Overview of course

Prof. Marion will discuss course outline and requirements.

For January 9: Determinants of Economic Growth -- Theory and Evidence

Workshop led by Prof. Marion

Central Question: How can poor countries become rich? Are there some key factors that can increase a country's growth rate?

*Easterly, William, *The Elusive Quest for Growth*, Cambridge: MIT Press, 2002, Chapters 1, 3, 4.

[Link](#)

*Barro, Robert, "Economic Growth in a Cross Section of Countries," *Quarterly Journal of Economics*, May, 1991. Focus on Table 1 and the discussion about it on pp. 407-19, 430-37.

[Link to Paper](#)

Levine, Ross and David Renelt, "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review* 82, 942-963, 1992.

[Link](#)

Weil, David, *Economic Growth*, Boston: Addison-Wesley, 2005, Chapter 3.

Mankiw, Gregory, David Romer and David Weil, "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, May 1992, pp., 407-437.

[Link to Paper](#)

For January 11: Trade and Economic Growth

Student Presentation

Central Question: Can a country achieve higher economic growth by liberalizing trade in goods and services?

* Sachs, Jeff and Andrew Warner, "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity* 1995:1, pp. 11-72 only.

[Web Link to Paper - Check Pages to read](#)

Rodriguez, Francisco and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," *NBER Working Paper* No. 7081, April, 1999, *NBER Macroeconomic Annual*, pp. 261-338, 2000.

[Link to Paper](#)

Wacziarg, Romain and Karen Horn Welch, "Trade Liberalization and Growth: New Evidence," *NBER Working Paper* 10152, December 2003. [Link to Paper](#)

Hallak, Juan Carlos and James Levinsohn, "Fooling Ourselves: Evaluating the Globalization and Growth Debate," *NBER Working Paper* No. 10244, January 2003.

[Link to Paper](#)

Harrison, Ann, "Openness and Growth," *Journal of Development Economics*, Vol. 48 No. 2, 1996, pp. 419-447.

[Link To Paper - Check pages to read](#)

Frankel, Jeff and David Romer, "Does Trade Cause Growth?" *American Economic Review* 89, No. 3, 1999, pp. 379-399. [Link to Paper](#)

For January 16: Geography and Growth

Student Presentation

Central Question: Is growth determined by geography?

* Bloom, David and Jeff Sachs, "Geography, Demography, and Economic Growth in Africa," *Brookings Papers on Economic Activity* 1998:2, pp. 207-273.

[Link to Paper](#)

Collier, Paul and Jan Willem Gunning, "Why Has Africa Grown Slowly?" *Journal of Economic Perspectives*, Summer 1999, pp. 3-22. [Link to Paper](#)

Redding, Stephen and Peter Schott, "Distance, Skill Deepening and Development: Will Peripheral Countries Ever Get Rich?" *CEPR Discussion Paper* No. 3739, February 2003, *Journal of Development Economics* 72(2), 515-41, 2003.

[Link](#)

Easterly, William and Ross Levine, "Tropics, Germs, and Crops: How Endowments Influence Economic Development," *Journal of Monetary Economics* 50(1), 3-40, 2003.

[Link](#)

For January 18: Institutions and Growth

Student Presentation

Central Question: What is the effect of institutions on economic performance?

*Acemoglu, Daron, Simon Johnson, and James Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," NBER Working Paper No. 7771, June, 2000, *American Economic Review* 91, December 2001, pp, 1369-1401.

[Link to Paper](#)

Rodrik, Dani, Arvind Subramanian and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development," *NBER Working Paper* 9305, November 2002, *Journal of Economic Growth*, Vol. 9, No. 2, June 2004. [Link to Paper](#)

Glaeser, Ed, Rafael La Porta, F. Lopez-de-Silanes, Andrei Shleifer, "Do Institutions Cause Growth?" *NBER Working Paper* 10568, June 2004, *Journal of Economic Growth*, Vol. 9, No. 2, June 2004.

[Link to Paper](#)

Further Readings on Growth for the Interested Student:

Levine, Ross and Sara Zervos, "Stock Markets, Banks and Economic Growth," *American Economic Review* 88, No. 3, June 1998, pp. 537-558.

[Link to Paper](#)

Rajan, Raghuram and Luigi Zingales, "Financial Dependence and Growth," *American Economic Review*, June 1998, Vol. 88 No. 3, pp. 559-586. [Link to Paper](#)

Eichengreen, Barry and David A. Leblang, "Capital Account Liberalization and Growth: Was Mr. Mahathir Right?" *NBER Working Paper* No. 9427, January 2003, *International Journal of Finance and Economics* 8, 205-24, 2003. [Link to Paper](#)

Borensztein, Eduardo, Jose de Gregorio and Jong-Wha Lee, "How Does Foreign Investment Affect Growth?" *Journal of International Economics*, Vol. 45, June 1998, pp. 115-135. [Link to Paper](#)

Burnside, Craig and David Dollar, "Aid, Policies and Growth," *American Economic Review* 90(4), 847-68, 2000. [Link](#) Also the rebuttal: Easterly, William, Ross Levine, and D. Roodman, "Comment: Aid, Policies and Growth," *American Economic Review* 94(3), 774-780, June 2004.

Unit 2: Topics in Globalization

For January 23: Cross-Border Equity Flows

Student Presentation

Central Question: What are the determinants of cross-border equity flows?

*Portes, Richard and Helene Rey, "The Determinants of Cross-Border Equity Flows," *Journal of International Economics* 65, 2005, 269-296. [Link to Paper](#)

Bekaert, G. Harvey, C., Lumsdaine, R., "The Dynamics of Emerging Market Equity Flows," *Journal of International Money and Finance* 21, 2002, 295-350. [Link to Paper](#)

Lane, P. and G.-M. Milesi-Ferreti, "The External Wealth of Nations: Measures of Foreign Assets and Liabilities for Industrial and Developing Countries," *Journal of International Economics* 55, 2001, 263-294. [Link to Paper](#)

For January 25: Illegal Immigration

Student Presentation

Central Question: Is illegal immigration responsive to relative wages and border enforcement?

*Hanson, Gordon and Antonio Spilimbergo, "Illegal Immigration, Border Enforcement, and Relative Wages: Evidence from Apprehensions at the U.S.-Mexico Border," *American Economic Review* (89), December 1999, pp. 1337-1357. [Link to Paper](#)

Chiquiar, Daniel and Gordon Hanson, “International Migration, Self-Selection, and the Distribution of Wages: Evidence from Mexico and the United States,” *NBER Working Paper* No. 9242, September 2002, *Journal of Political Economy* Vol. 113, 239-281, April 2005. [Link to Paper](#)

For January 30: Outsourcing

Student Presentation

Central question: What is the impact of outsourcing to China from Hong Kong on Hong Kong’s labor market?

*Hsieh, Chang-Tai and Keong T. Woo, “The Impact of Outsourcing to China on Hong Kong’s Labor Market,” *American Economic Review* 95, December 2005, 1673-1687. PDF version available on blackboard.

Amiti, M. and Shang-Jin Wei, “Fear of Service Outsourcing: Is it Justified?” NBER Working Paper 10808, October 2004; *Economic Policy* 20, 208-348, April 2005. [Link to Paper](#)

For February 1: Effects of Trade Liberalization

Student Presentation

Central question: Can trade liberalization have unequal effects on growth in different industries and regions within a single country?

*Aghion, Philippe, Robin Burgess, Stephen Redding and Fabrizio Zilibotti, “The Unequal Effects of Liberalization: Theory and Evidence from India,” Working Paper October, 2003, *Journal of the European Economic Association* 3 (2-3), 291-302, 2005. [Link to Paper](#) Note: Oct 2003 version is located at: [Link](#)

Scheve, Kenneth and Matthew Slaughter, “What Determines Individual Trade Policy Preferences?” *Journal of International Economics* 54, August 2001, pp. 267-292. [Link to Paper](#)

Unit 3: Political Economy

For February 6: International Terrorism

Student Presentation

Central Question: Is poverty at the root of terrorism?

*Abadie, Alberto, "Poverty, Political Freedom, and the Roots of Terrorism," *NBER Working Paper* No.10859, October 2004, *American Economic Review Papers and Proceedings* 96(2), 2006, 50-56. PDF version of published paper on blackboard. [Link to Paper](#) (Link is to the NBER Working Paper No. 10959.)

Krueger, Alan and Jitka Maleckova, "Education, Poverty and Terrorism: Is There a Causal Connection?" *Journal of Economic Perspectives* (17), No. 4, Fall 2003, pp. 119-144. [Link](#)

For February 8: Artificial States

Student Presentation

Central Question: How do we measure the degree to which national borders are natural or artificial and is the measure correlated with economic and political success?

*Alesina, Alberto, William Easterly and Janina Matuszeski, "Artificial States," NBER Working Paper No. 12328, June 2006. [Link to Paper](#)

Alesina, Alberto, Enrico Spolaore and Romain Wacziarg, "Economic Integration and Political Disintegration," *American Economic Review* 90, 1276-96, December 2000. [Link to Paper](#)

Easterly, William and Ross Levine, "Africa's Growth Tragedy: Policies and Ethnic Divisions," *Quarterly Journal of Economics* 112:4, November 1997, 1203-50. [Link to Paper](#)

Unit 4: Foreign Direct Investment

For February 13: FDI and Corruption

Student Presentation

Central Question: Does corruption in the host country deter FDI from coming in?

* Wei, Shang-Jin, "How Taxing is Corruption on International Investors?" *Review of Economics and Statistics*, Vol. 82, No. 1, February 2000, pp. 1-11. [Link to Paper](#)

Bardhan, Pranab, "Corruption and Development: A Review of Issues," *Journal of Economic Literature*, September 1997, pp. 1320-1346. [Link to Paper](#)

Mauro, Paulo, "Corruption and Growth," *Quarterly Journal of Economics*, 1995, pp. 681-712. [Link to Paper](#)

For February 15: FDI and Spillovers

Student Presentation

Central Question: Does inward foreign direct investment improve the productivity of domestic firms?

*Aitken, Brian and Ann Harrison, "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela," *American Economic Review*, June 1999, pp. 605-618. [Link to Paper](#)

Smarzynska, Beata, "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages." World Bank Paper 2002, *American Economic Review*, June 2004. [Link to Paper](#)

Haskel, Jonathan, Sonia Pereira, and Matt Slaughter, "Does Inward Foreign Direct Investment Boost the Productivity of Domestic Firms?" *NBER Working Paper No. 8724*, January 2002, in William Milberg (ed), *Labor and the Globalization of Production*, New York: Palgrave Macmillan, 121-145, 2004.

[Link to Paper](#)

Unit 5: Emerging Markets

For February 20: Banking Crises

Student Presentation

Central Question: Can we predict a banking crisis?

* Demirguc-Kunt, Asli and Enrica Detragiache, "The Determinants of Banking Crises in Developing and Developed Countries," *IMF Staff Papers*, March 1998, pp. 81-109.

[Link to Paper](#)

Diaz-Alejandro, Carlos, "Good-bye Financial Repression, Hello Financial Crash," *Journal of Development Economics*, September/October, 1985. [Link to Paper](#)

Gonzalez-Hermosillo, Brenda, Ceyla Pazarbasioglu, and Robert Billings, "Determinants of Banking System Fragility: A Case Study of Mexico," *IMF Staff Papers*, September, 1997, pp. 295-314. [Link to Site - Locate Sept 1997 to locate paper](#)

Hardy, David and Ceyla Pazarbasioglu, "Determinants and Leading Indicators of Banking Crises: Further Evidence," *IMF Staff Papers*, Vol. 46, No. 3, December 1999.

[Link to Paper](#)

Beck, Thorsten, Asli Demirguc-Kunt and Ross Levine, "Bank Concentration and Crises," *NBER Working Paper No. 9921*, August 2003, *Journal of Banking and Finance*, forthcoming. [Link to Paper](#)

Demirguc-Kunt, Asli and Enrica Detragiache, "Cross-Country Empirical Studies of Systemic Bank Distress: A Survey," *World Bank Policy Research Working Paper No. 3719*, September 2005.

Download icon is at the bottom of the page.

http://papers.ssrn.com/paper.taf?abstract_id=821416

For February 22: Jumpstarting Reforms

Student Presentation

Central Question: What accounts for the worldwide advance of financial reforms in the last quarter century?

*Abiad, Abdul and Ashoka Mody, "Financial Reform: What Shakes It? What Shapes It?" *American Economic Review* 95, March 2005, 66-88. PDF version available on blackboard.

Kaminsky, Graciela and Sergio Schmukler, “Short-Run Pain, Long-Run Gain: The Effects of Financial Liberalization,” IMF Working Paper 03/34, 2003. [Link to Paper](#)

For February 27: Predicting Currency Crises and Contagion

Workshop led by Prof. Marion

Central Question: Can we predict a currency crisis and its contagion?

* Sachs, Jeff, Aaron Tornell, and Andres Velasco, “Financial Crises in Emerging Markets: The Lessons From 1995,” *Brookings Papers on Economic Activity*, 1996:1, pp. 147-198 (focus on pp. 159-170). [Link to Paper](#)

Kaminsky, Graciela, Saul Lizondo and Carmen Reinhart, “Leading Indicators of Currency Crises,” *IMF Staff Papers*, vol. 45 No. 1, March 1998. [Link to Paper](#)

Frankel, Jeff and Andrew Rose, “Currency Crashes in Emerging Markets: Empirical Indicators,” NBER Working Paper No. 5437, January 1996, also in *Journal of International Economics*, Vol. 41, No. 3/4, pp. 351-366, 1996. [Link to Paper](#)

Berg, Andrew and Catherine Pattillo, “Are Currency Crises Predictable? A Test,” *IMF Staff Papers*, Vol. 46 No. 2, June, 1999. [Link to Paper](#)

Kaminsky, Graciela and Carmen Reinhart, “The Twin Crises: The Causes of Banking and Balance-of-Payments Problems,” *American Economic Review*, Vol. 89 No. 3, June 1999, pp. 473-500. [Link to Paper](#)

Flood, Robert and Nancy Marion, “Perspectives on the Recent Currency Crisis Literature,” *International Journal of Finance and Economics*, Vol. 4 No. 1, 1-26, 1999. [Link to Paper](#)

Marion, Nancy, “Some Parallels Between Currency and Banking Crises,” *International Tax and Public Finance* 6, pp. 473-490, 1999, reprinted in *International Finance and Financial Crises*, edited by Peter Isard, Assaf Razin and Andrew Rose, Boston: Kluwer and IMF: Washington, D.C., 1999. [Link](#)

Flood, Robert and Nancy Marion, “A Model of the Joint Distribution of Banking and Currency Crises,” IMF Working Paper WP/01/213 and Dartmouth College Working Paper, December 2000, and *Journal of International Money and Finance*, forthcoming August 2004. [Link to Paper](#)

For March 1: Writing an Economics Paper

Professor-led workshop

Central question: How do you write a research paper in economics?

The mechanics of writing a research paper in economics.
Questions related to student papers.