

Theory and Practice of Successful Developing Countries, Econ 396 & 696

Spring, 2008

Watkins 102

Thurs. 5:30 - 8:00 p.m.

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Office hours:

Thurs. 4:20 - 5:20, Roper 205, priority for appointments

Description and Objectives of the Course:

Some developing countries in different parts of the world have experienced consistently higher growth than their neighbors. What policies did these countries pursue that their neighbors did not? Why did some developing economies emerge relatively unscathed while others suffered contagion from the Mexican financial crisis of 1994-1995, the implosion of East Asian economies beginning mid-1997, the collapse of the ruble and default on foreign debt by Russia in August 1998, the Brazilian devaluation in January 1999, the collapse of the Argentine economy in 2001-2002? Why are some better able to cope with volatility in currency and commodity markets? This course will examine theory and practice of economic policies that tend to make a country more successful. Specifically, we will review some of the experiences of successful developing countries and study the following policies:

- The exchange rate: Which exchange rate regimes tend to be more successful and why? We will carefully review a useful method to calculate actual movements in real exchange rates and the relation of exchange rate policy to fiscal, trade and monetary policies.
- Fiscal policy: Fiscal discipline, major taxes, other revenue sources, tax administration and compliance, key indicators. Relation to monetary policy.
- Trade policy: Average tariff, tariff dispersion, quotas, import licenses, other barriers or incentives to trade, key data, key ratios, WTO issues, Customs Unions, Free Trade Areas.
- Privatization and deregulation: Status of privatization, deregulation, interferences in functioning of price mechanism, accounting, accountability.
- Capital markets, foreign investment: Government role in market, distortions in credit allocation, if there is sound regulation in capital markets, sound pension system.
- Rule of law, transparency: Policies affecting corruption, legal security and intellectual property protection.
- Poverty, income distribution, labor, and the environment: Policy approaches on dealing with these key social-economic issues.

A course paper is required. Each student will select a country from a list of developing market economies that will be provided in class and *analyze the policies, draw conclusions and make recommendations*. The course will provide guidelines for the analysis of the key policy areas and discuss real world examples of the policies and alternatives. Information should come *from a variety of reliable sources*. The paper will be graded on the quality of the research, writing, analysis and, importantly, on the student's own conclusions stated in an introductory section that should be written only after all the required sections are completed. Research and writing should be done throughout the semester and *not* compressed into days, or even weeks. Written guidelines for preparation of the paper will be provided early in the course and suggestions for each section will be discussed throughout the course.

Requirements, methodology and grading:

The course includes lectures, class discussion and the course paper. Two sections of the paper are to be handed in ***at the beginning of class on the dates noted in the schedule***. Each student will be asked to do ***three presentations in class***: (1) an explanation of the exchange rate policy and analysis of the real exchange rate; (2) an analysis of trade policies; and (3) a 10 minute presentation on key findings from his/her analysis of the country's economic policies. Students enrolled in 396 will be evaluated as undergraduates and those in 696 as graduates.

- 90% Country Report
- 10% Class Participation (Based on attendance, participation in class discussion, the three presentations and several short pop quizzes on assigned reading.)

Note on Class Participation

Experience has shown that missing three classes leads to extremely poor results. Even two absences are often a problem. If you expect conflicts that might cause you to miss two or three classes, you should withdraw and sign up for the next offering of the course.

Blackboard - Course Listing: ECON-396-001-ECON-696-001-2008S

Check every week for assignments and readings at <<http://www.american.edu/blackboard>>.

Course Texts (Complete the assigned readings before coming to class):

- Course Pack (CP) with Selected Readings – purchase at book store.
- Sebastian Edwards, *Crisis and Reform in Latin America, From Despair to Hope*, Oxford University Press, 1995 (optional). Edwards was World Bank Chief Economist. His book centers on Latin America but it is valuable for analyzing other countries because it provides an excellent framework for analysis of key policy issues. (copy in reserves)
- Other key readings are in reserves.
- Important handouts and primers will be posted on blackboard or distributed in class.

Jan 17 (1) Introduction to the course

Jan 24 (2) Overview of economic policies for growth reviewing the theory and experience of Chile. We will also go over your choice of research topic. *Several short papers will be posted on Blackboard on Chile, its experience, achievements, failures, setbacks, overall success, policies over the last three decades and present challenges. In addition several thought-provoking policy questions will be posted.*
Assignment: Come to class prepared to discuss the lessons from the Chile experience and your views on the posted questions. They can serve as a launch pad for a discussion about development and real world economic policy analysis.

Jan 31 (3) Exchange rate analysis

Reading: Pages 1- 28 of Course Pack (CP) and Edwards, Ch 4

Handout: exchange rate primer

Assignment: Draft Country Profile due in class at the start of class

- Feb 7** (4) Exchange rates continued
Reading: CP pages 29 – 44, “The Foreign Exchange Market”
- Feb 14** (5) Fiscal Policy
Reading: CP pp 7 – 13 “Causes of Inflation” and 45 – 79 “Financial Crises” and Edwards, Ch 4
Assignment: Chapter on Exchange Rates due in class at the start of class
Assignment: Class presentation – bring 15 copies of your real exchange rate analysis to distribute in class and give a five minute review of your findings.
- Feb 21** (6) Trade Policy
Reading: Edwards, Ch 5, and Eliana Cardoso and Ann Helwege: “From Import Substitution to Trade Liberalization” (in reserves)
- Feb 28** (7) Trade continued, regional & international agreements
Reading: Chapter 8 “The World Trade Organization: International Trade Law and Trade Liberalization” in *Fundamentals of U.S. Foreign Trade Policy, Economics, Politics, Laws and Issues*, (in reserves)
Assignment: Chapter on Trade Policy due in class at the start of class
Assignment: Class presentation – give a five minute review of your findings.
- Mar 6** (8) Privatization and Deregulation
Reading: CP pp 80 – 143 “Privatization and Deregulation”, Edwards Ch 6
- Mar 13* *No class - AU Spring Break Mar ch 9 - 16*
- Mar 20** (9) Capital Markets and Foreign Investment
Reading: CP pp 144-190 “Financial Repression and Financial Development” and Edwards, Ch 7
- Mar 27** (10) The Pension System
Reading: Handouts on pensions
- April 3** (11) Rule of Law, Transparency, Intellectual Property Protection
Reading: CP pp 191 – 231 “Legal Foundations” and handouts
- April 10** (12) Poverty, Income Distribution, Labor, the Environment and
Reading: Edwards, Ch 8 and handouts
- April 17** (13) **Assignment: Student Presentations of 10 minutes** on key findings of paper
Class attendance – mandatory. Listen and be prepared to ask questions.
- April 24** (14) **Assignment: Student Presentations of 10 minutes** on key findings of paper
Class attendance – mandatory. Listen and be prepared to ask questions.
- May 1 (Thurs.) Papers due 11:59 pm, on Blackboard. Please put hard copy of paper in my box in Roper. Late papers severely penalized.**