

**Economics 388: Latin American Economic Development**  
**Fall 2015**  
**Kenyon 134, T&Th 3:10-4:25pm**

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Office Hours: T&Th 5:00-6:00 pm  
W 2-3pm, and by appointment

**Overview**

This course will examine why many Latin American countries started with levels of development similar to those of the U.S. and Canada but were not able to keep up. The course begins with discussions of various ways of thinking about and measuring economic development and examines the record of Latin American countries on various measures, including volatile growth rates, high income and wealth inequality, and high crime rates. We then will turn to an analysis of the colonial and post-Independence period to examine the roots of the weak institutional development that could explain a low growth trajectory. Next, we examine the post WWII period, exploring the import substitution of 1970s, the debt crises of the 1980s, and the structural adjustment of the 1990s. Finally, we will look at events in the past decade, comparing and contrasting the experience of different countries with respect to growth, poverty and inequality.

**Learning Goals:**

The main goal of this course is to understand how Latin America fell behind, in terms of economic growth, countries like the U.S. and Canada and, more recently, countries like Taiwan and South Korea. The secondary goal of the course is to provide you with more tools to answer this question. These include:

- 1) An understanding of the necessary components for economic growth and why Latin American countries, at various points in time, failed to fully develop these components
- 2) An understanding of the different policy experiments enacted by countries in the region and the successes and failures of these policies
- 3) An basic understanding of how to do empirical analysis

**Prerequisites:**

Economics 102 or Economics 100 (Introduction to Economics or Introduction to Macroeconomics) and Economics 209 (Probability and Statistics), or equivalent. It is expected that you know basic macroeconomic concepts, such as GDP, GDP growth, inflation, and unemployment. It also is expected that you have some experience working with data and have seen regression analysis before.

**Textbooks/Readings**

The main texts for this course are:

- a) The Puzzle of Latin American Development by Patrice Franko.
- b) The Economic History of Latin America Since Independence, by Victor Bulmer-Thomas (new edition)
- c) Left Behind, by Sebastian Edwards

There are numerous other readings. They are posted on Moodle.

**Requirements:**

In order to be as fair and impartial as possible I base grades on students' knowledge and understanding of the material as demonstrated in work completed during the course. There will be no individual opportunities for extra credit. If at any point during the semester you face circumstances which prevent you from attending lecture and completing problem sets and/or exams on time and to the best of your ability, please contact or see me as soon as possible.

Breakdown of the Final Grade is as follows:

Problem Sets/Reading reactions	30%
Class participation/Presentations	8%
In Class Midterms (2)	44%
Final Paper- Country Report	18%

You are accountable for material presented in class. This includes presentations of paper and other material by your fellow classmates.

**Group Problem Sets**

There will be several problem sets during the course. These will involve a combination of data exercises and reading responses. You can work in groups, where groups can be as large as 2 people. You may talk with members of other groups, but each group must turn in an original problem set. If two groups turn in the same answer for a question, I will divide the total points evenly across the two.

Problem sets will be graded on a combination of accuracy and effort. Problem sets will be handed back with solutions the class after you turn them in. The policy for late problem sets is:

- Same day anytime after class: 1/3 off
- Any later: no credit

The only exceptions that will be made for late problem sets are documented emergencies. If you cannot make it to class to turn in your problem set please email it to me, leave it in my mailbox in the economics department office or under my office door. The economics office is open until 3:30 pm. Please follow the due dates on the problem sets themselves rather than the syllabus, as the latter might change during the semester.

**Class Presentations (Group)**

Each of you will do several, group presentations in class. Several of these will be country specific, and you will be asked to report on developments at distinct points in time in the country you are assigned during the first week of class. Your country specific work will culminate into a final country report that you will present the final week of class. In this you will discuss barriers to growth the country has faced, any barriers that have been overcome, and the challenges that remain.

Each group also will present one paper during the semester. These are outlined in the syllabus. The goal of this exercise is to give you experience presenting on someone else's work and to "divide and conquer" the material. While this means you will not have to do all of the reading, you are

responsible for understanding the papers presented by your peers. I will give more detailed guidelines for both types of presentation during the semester.

### **In Class Midterms**

There will be two in-class midterms. The first will be on Thursday, October 8th. The second one will be on Tuesday, December 1<sup>st</sup>.

### **Final Paper/Country Report**

Your final paper will be on a policy or specific barrier to growth for your country. It should be 15 pages, including the title page, references, any tables and graphs. This is a project that should take place throughout the semester, rather than in one, mad dash in the last weeks of classes. To improve the overall quality of the paper and reduce your stress load I have built in several intermediate steps during the semester. These include meeting with me to discuss topics, turning in an outline, and turning in a draft prior to the final date that will be peer reviewed. The peer review process is an important part of academic research, and thus the quality of your peer review will be a part of your final paper grade.

### **Academic Integrity**

All work on problem sets, papers, and exams must be your own. If you use pieces of others' writing, from books, articles, or papers you must put them in quotations and cite the source. Failure to do this means you are trying to pass off someone else's work as your own. This is plagiarism, and any suspected cases will be brought to the Dean of Studies for review by the Academic Panel. If you have questions about the appropriate way to use material, please consult Vassar's *Originality and Attribution: A Guide for Student Writers at Vassar College*, which is on the Dean of the College and the Dean of Studies websites, or speak with me.

### **Academic Support**

"Academic accommodations are available for students registered with the Office for Accessibility and Educational Opportunity. Students in need of ADA/504 accommodations should schedule an appointment with me early in the semester to discuss any accommodations for this course that have been approved by the Office for Accessibility and Educational Opportunity, as indicated in your AEO accommodation letter."

## Course Outline

Dates	Topic	Reading
<u>Introduction</u>		
9/1	Introduction <i>Reading Questions for Next Class</i>	Franko Chapter 1 Bulmer-Thomas Chapter 1
9/3	Introduction- Growth <i>Problem Set 1 handed out</i> <i>Country teams established</i>	Franko Chapter 1 Bulmer-Thomas Chapter 1
<u>Historical Origins (Colonial Period to right after WWII)</u>		
9/8	Learning Stata: <i>Class in Econ lab</i> Colonial Period	Franko Chapter 2 Bulmer-Thomas Chapter 2 “The Colonial Origins of Comparative Development: An Empirical Investigation.” Daren Acemoglu, Simon Johnson and James Robinson. 2001. <i>American Economic Review</i> , Vol. 91 (5)
9/10	Colonial Period and Independence	“History lessons: Institutions, Factor Endowments Institutions and Paths of Development in the New World.” Stanley Engerman and Kenneth Sokoloff, <i>Journal of Economic Perspectives</i> , Vol. 14(3) 2000  “Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development” Dani Rodrik, Arvind Subramanian, & Francesco Trebbi. <i>Journal of Economic Growth</i> , Vol.9. 2004
9/15	1820-WWI <i>Problem Set 1 due</i> <i>Problem Set 2 handed out</i>	Bulmer-Thomas Chapter 3-5 Franko Chapter 5 “Inequality, Institutions and Economic Growth in Latin America.” John H. Coatsworth <i>Journal of Latin American Studies</i> , 2008
9/17	1820-WWI Productivity Dutch disease	Bulmer-Thomas Chapter 3-5 “Financial Markets and Industrial Development”, Stephen Haber, Chapter 6 in <u>How Latin America Fell Behind</u> “Lost Decades: Postindependence Performance in Latin America and Africa.” Robert Bates, John Coatsworth and Jeffrey Williamson. <i>Journal of Economic History</i> , Vol.67(4), 2007
9/22-24	1920s-1940s	Bulmer-Thomas Chapter 6-8 “Capital Formation in Machinery in Latin America, 1890-1930” Xavier Tafunell. <i>Journal of Economic History</i> . Vol.

69(4), 2009

“Assessing the Obstacles to Industrialization: The Mexican Economy, 1830-1940.” Stephen Haber, *Journal of Latin American Studies*, Vol. 24(1), 1992

The Region Turns Inward: Import Substitution Industrialization (1950-1980)

9/29-10/1	Import Substitution <i>Problem Set 2 due (9/29)</i> <i>Problem Set 3 handed out</i>	Franko Chapter 3 Bulmer-Thomas Chapters 9 & 10 Edwards Chapters 1 & 2  “Latin American Economic Development: 1950-1980,” Cardoso, Eliana A. and Albert Fishlow, 1992. <i>Journal of Latin American Studies</i> , Vol. 24  “The Political Economy of Protectionism: The Mexican Textile Industry, 1900-1950” Aurora Gómez-Galvarriato. <u>In The Decline of Latin American Economies: Growth Institutions and Crises</u> . NBER  “Getting Intervention Right: How South Korea and Taiwan Grew Rich.” Dani Rodrik, Gene Grossman and Victor Norman. 1995. <i>Economic Policy</i> . Vol.10(20).  “Populism, Profligacy and Redistribution.” By Eliana Cardoso and Ann Helwege. 1991. In <u>The Macroeconomics of Populism in Latin America</u> , NBER
10/6	The Debt Crisis <i>Problem Set 3 due</i>	Franko Chapter 4 Bulmer-Thomas Chapter 11
10/8	MIDTERM 1	
10/12-10/18	FALL BREAK	NO CLASS
<u>Crises and Reform (1980s and 1990s)</u>		
10/20	The Debt Crisis <i>Problem set 4 handed out</i>	Franko Chapter 4 Bulmer-Thomas Chapter 11 “Macroeconomic populism in Latin America” Sebastian Edwards and Rudgier Dornbusch. 1991. NBER Commanding Heights video on Bolivia
10/22	Structural Adjustment Part I: Macroeconomic Stability.	Franko Chapter 5 Edwards Chapters 3 & 4 Dani Rodrik. 1996. “Understanding Economic Policy Reform.” <i>Journal of Economic Literature</i>
10/27	Structural Adjustment Part II: Privatization	“Privatization in Latin America: What Does the Evidence Say?” Alberto Chong and Florencio Lopez-de-

		<p>Silanes. 2004. <i>Economia</i> Vol. 4(2)</p> <p>Franko chapter 6</p> <p>“Mexico’s Experiments with Bank Privatization and Liberalization.” Stephen Haber. 2005. <i>Journal of Banking and Finance</i>, Vol. 29</p> <p>“Winners and Losers: Assessing the Distributional Impact of Privatization.” Nancy Birdsall and John Nellis. 2003. <i>World Development</i>, Vol. 31(10)</p> <p>“Latin America’s Growth and Equity Frustrations during Structural Reforms” Jose Antonio Ocampo. 2004. <i>Journal of Economic Perspectives</i> 18(2)</p>
10/29	CASE STUDY	Bolivia Privatization
11/3-5	<p>Crisis Revisited</p> <p><i>Problem set 4 due (11/3)</i></p> <p><i>Problem set 5 handed out</i></p>	<p>Edwards Chapters 6 and 7 (Mexico and Argentina)</p> <p>Franko Chapter 6</p> <p>Dani Rodrik “Goodbye Washington Consensus, Hello Washington Confusion? A Review of ‘Economic Growth in the 1990s: Learning from a Decade of Reform.’” 2006. <i>Journal of Economic Literature</i>, Vol. 44(4)</p> <p>“The Positive Economics of Policy Reform”. Dani Rodrik. <i>The American Economic Review</i>. 1993. Vol.82(2).</p> <p>“Crisis and Growth: A Latin American Perspective” Sebastian Edwards, NBER Working Paper, 2007</p>
11/10	From 2000 onward	<p>Edwards Chapters 8-9, Franko Chapter 9</p> <p>“Why Isn’t Mexico Rich?” Gordon H. Hanson. 2010. <i>Journal of Economic Literature</i>, Vol.48(4)</p> <p>Velasco, Andres. “A Tale of Two Countries” Project Syndicate, March 14, 2013</p> <p>“The Argentina Paradox: Microexplanations and Macropuzzles.” Alan Taylor. 2014. <i>NBER Working paper</i></p> <p>Economist “A Century of Decline: The tragedy of Argentina” Feb. 15, 2014, print edition</p>
<u>Topics</u>		
11/12-17	<p>Inequality</p> <p><i>Presentation on Argentina (11/12)</i></p> <p><i>Presentations on the trajectory of income inequality and on perceptions (11/17)</i></p> <p><i>Problem set 4 due (11/17)</i></p>	<p>“Is Income Inequality in Latin America Falling?” <i>Economia</i>. Gasparini and Tornaroli. 2011. Vol. 11 (2)</p> <p>Commanding Heights videos</p> <p>Franko Chapter 11</p> <p>“Inequality and the Evolution of Institutions of Taxation.” Kenneth Sokoloff and Eric Zolt. In <u>The Decline of Latin American Economies: Growth,</u></p>

	<i>Problem set 5 handed out</i>	<p><u>Institutions and Crises</u>. NBER. 2007</p> <p>“Inequality and Institutions” Alberto Chong and Mark Gradstein, <i>Review of Economics and Statistics</i>, Aug. 2007</p> <p>“Latin American inequality since 1491” Jeffrey Williamson. NBER Working Paper. 2009</p> <p>“Latin American Middle Classes: The Distance Between Perception and Reality” Eduardo Lora &amp; Johanna Fajardo. 2013. <i>Economía</i>, Vol. 14 (1)</p> <p>Economist. Gini Back in the Bottle. 2012.</p>
11/19-24	<p>Poverty/Social Policy</p> <p><i>Presentations on trade liberalization and discrimination (11/19)</i></p>	<p>Franko Chapter 11</p> <p>“Latin America’s Social Policy Challenge: Education, Social Insurance and Redistribution”, Santiago Levy and Norbert Schady. <i>Journal of Economic Perspectives</i> 2013</p> <p>“Evaluating the Impact of Conditional Cash Transfer Programs”, Laura B. Rawlings and Gloria M. Rubio. <i>World Bank Research Observer</i>, Vol.20(1) 2005.</p> <p>“The Impact of Globalization on the Poor in Latin America.” Thorbecke and Nissanke. <i>Economía</i>, Vol. 9(1), 2004.</p> <p>“Schooling, educational achievement and the Latin American growth puzzle”, Eric Hanushek and Ludger Woessmann, <i>Journal of Development Economics</i>, 2012</p> <p>“The Mystery of Discrimination in Latin America”, Alberto Chong &amp; Hugo Nopo. 2008, <i>Economía</i>, Vol. 8(2)</p> <p>Left Behind: Chronic Poverty in Latin America and the Caribbean. 2015. World Bank (plus video showing trends)</p>
11/26	<p>Trade Reform</p> <p>Market vs. government determinants</p> <p><i>Problem set 5 due</i></p> <p><i>Problem set 6 handed out</i></p>	<p>Franko Chapter 8</p> <p>“Trade, Inequality and Poverty: What Do We Know? Evidence from Liberalization Episodes in Developing Countries.” Pinelopi Koujianou Goldberg and Nina Pavcnik. Brookings Trade Forum. 2004</p>
12/1	MIDTERM 2	
12/3-8	<p>Country final reports</p> <p><i>Problem Set 6 due (12/8)</i></p>	
12/12	FINAL PAPERS DUE	Libertad!