

Globalization

University of California San Diego (UCSD)

Econ 102

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Outline of the lecture

- ▶ Objectives:
 - Theories of global economic integration
 - Principle of comparative advantage
 - Consequences of globalization on growth, surplus and inequality

- ▶ Readings
 - Krugman, P.R., M. Obstfeld and M. J. Melitz (2011) *International Economics, Theory and Policy*
 - D. Salvatore (2011) *International Economics, Trade and Finance*

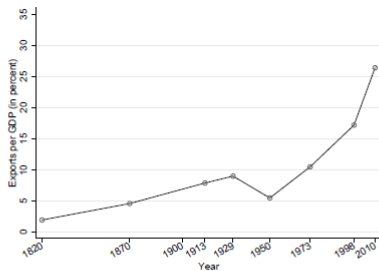
- ▶ Evaluation
 - Two problem sets : due on scheduled dates prior to the exams (45+45 points)
 - Midterm exam (90 minutes) : 90 points
 - Final exam (120 minutes): 120 points

Schedule

- ▶ International Product Market
 - Ricardo model
 - HOS model
 - Cost and benefit of trade restrictions
 - ▶ Midterm Exam
- ▶ International Capital Market
 - Capital Flows and the Current Account
 - ▶ Final Exam

Motivations of the lecture (1/3)

- ▶ International fragmentation of production processes



Sources: Maddison (2001, Tables B18, F2, F5) and World Bank ([URL data.worldbank.org/indicator/NE.EXP.GNFS.ZS](http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS), /NY.GDP.MKTP.CD 2012).

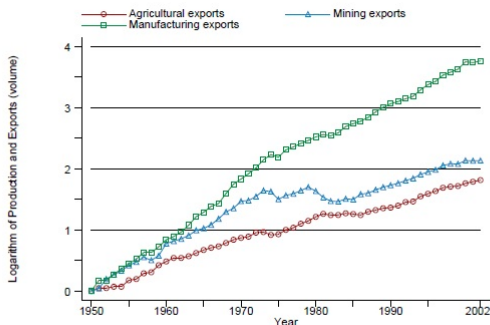
Note: The graph is based on a consistent sample of 56 countries (accounting for 93 percent of world output and 87 percent of world exports on average, see Angus Maddison 1995), except in 1820, when the sample consisted of 8 countries. The comparison over time is based on international (Geary-Khamis) dollar prices for 1990.

Figure 1.1: Share of Exports in World GDP, 1820-2010

Motivations of the lecture (1/3)

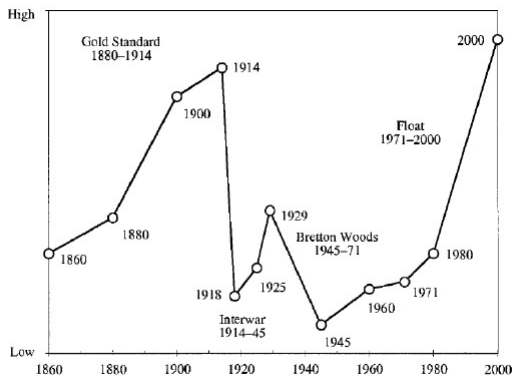
- ▶ Globalization has many aspects (1/3)
 - International fragmentation of production processes

Log World Merchandize Production and Trade by Product, 1950-2002



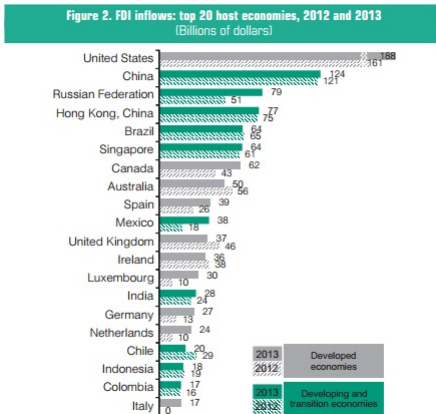
Source: World Trade Organization, *International Trade Statistics*, 2002

- ▶ Globalization has many aspects (2/3)
 - International capital markets
 - ▶ There are many measures of capital market integration (1/2)



Source: Obstfeld and Taylor (2004, Figure 1.3)

- ▶ There are many measures of capital market integration (2/2)
 - The volume of capital a country receives



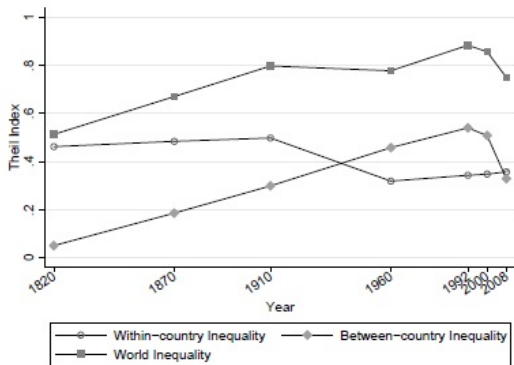
Source: UNCTAD, *World Investment Report 2014*.

Motivations of the lecture (2/3)

- ▶ Humankind achieved most of its living standard just over the last two centuries
- ▶ 1820: income per person 50% higher than 1000
- ▶ The global economy showed its best performance in the 2/3 decades after WW2
- ▶ 2000: World GDP has risen by 850% compared to 1820

Motivations of the lecture (3/3)

- ▶ The global distribution of income has shifted over the last century



Source: Bourguignon and Morrisson (2002) for 1820-1992 and Morrisson and Murtin (2011) for 2000-2008.

Conclusion

- ▶ Three themes have guided this introduction and will continue to guide the exposition of the lecture:
 - Why do countries globalize?
 - How do they globalize?
 - Should they globalize?
- ▶ This lecture will explore the nexus between trade, capital market integration and incomes from several perspectives