Market Integration and Economic Development

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Modulnummer	Workload	Credits	Häufigkeit des Angebots	Dauer
32721	300 h	10	jedes Semester	1 Semester

1 Lehrveranstaltungen

Einheit	Titel	Workload
1	Market Integration and Economic Development	300 h

2 Lernergebnisse (learning outcomes) / Kompetenzen

The main goal of this course is to study the interaction between globalization and economic growth. Issues that are relevant in a developing economics context are discussed based upon more common approaches that can be applied to both developed and developing countries. Those frameworks enable us to develop a deeper understanding of the interdependency between developing and developed countries when goods and factor markets are integrated.

Notice that many of the models discussed in this lecture may be familiar to you from your bachelor studies. For instance, the Solow model of economic growth, or the canonical trade models are discussed in other modules as well. However, we will go into much more detail and blend the models of international trade with the workhorse growth model. A sound knowledge of the contents of previous material is an advantage but not a prerequisite. All models are discussed from scratch and the necessary mathematical and econometric tools are explained clearly. The different models are motivated using some stylized facts when appropriate.

3 Inhalte (contents)

After an introduction to the overall course contents, our investigation starts off by investigating an empirical phenomenon present in many developing economies: The Middle Income Trap. This term describes a country's failure to attain high income status after growing considerably for a meaningful period of time. In this context, we employ two different theoretical frameworks to discuss agglomeration, i.e. the spatial concentration of economic activity, as a potential avenue of escape.

A sensible second step for an analysis of economic development must be a chapter on economic growth. The second section of this course provides a rigorous theoretical treatment of the Solow model and a discussion of related empirical growth studies. First, we tackle questions like, "Why do countries grow?" or "Why are some countries not able to catch up to the high income nations?" Capital formation is one potential source of economic growth but growth potential is limited without technological change. The intuition is straightforward, but we provide a more in-depth treatment based on the advanced textbook on economic growth by Acemoglu (2008). Equipped with the insights derived from the model, we continue to analyze the question "Why have some nations failed?" For example, some countries have demonstrated sustained economic growth through technological change. It is therefore puzzling that other countries remain stuck at low levels of per capita GDP and exhibit no growth whatsoever. We dedicate one sub-chapter to this issue based on the discussion summarized in Acemoglu (2008). A prominent answer given in the established literature has its foundation in the existence of institutions that provide a safe environment for entrepreneurs to invest. The absence of such an environment may very well render capital formation inefficient resulting in low rates of economic growth.

Another pillar of economic development is trade in goods. The canonical trade models studied in this course are able to rationalize international linkages between developed and developing countries based on technology or endowment differences. Countries specialize in particular industries where they produce with lower opportunity costs. The idea of a comparative cost advantage, which determines international trade patterns, depends on country-specific differences in observable characteristics such as technology (Ricardo) or factor endowments (Heckscher Ohlin). For example, countries tend to export goods produced in sectors where they have a relative cost advantage compared to the rest of the world whereas goods that can be purchased cheaper on the world market relative to domestically should be imported. However, these classical trade theories are not able to explain why similar countries import and export goods produced in the same industry. More recent models focus on intra-industry trade but the idea that comparative advantage matters appears to be more plausible in the context of developing economies. Therefore, this point is less of an issue if we are interested in trade between developed and developing countries, where specialization in particular industries is evident in the data.

Besides growth and trade, the other face of globalization is international migration, which constitutes the subject of the penultimate chapter of the course. Indeed, migration movements represent a recurrent pattern from developing to developed countries. Moreover, the "loss" of individuals due to migration away from developing countries has been a crucial topic both for the academic and policy debates. Hence, the aim of this chapter is to provide an overview of the international migration movements and the interrelated Brain Drain phenomenon. Specifically, we will answer the following question: "Why do people migrate?" In doing so, we will review the theoretical frameworks that look to provide explanations behind the individual migration decision (that is, at the micro level). We then proceed by answering the same question from the aggregate perspective, analyzing the determinants of the migration patterns at the macro level and presenting associated empirical evidence. Not all individuals from a given population have the same propensity to migrate. Thus, we will inquire about who chooses to migrate, stressing the importance of the issue of the immigrants' "selectivity" for the study of migration. Another part of the chapter is dedicated to the aforementioned Brain Drain, where we will show the most recent theoretical framework on the effects of the Brain Drain for the growth of the developing country.

The final chapter discusses models that nest both trade and capital formation. These extensions of the Solow growth model include versions with migration, foreign direct investment or trade in goods. The canonical trade models will be blended with the workhorse model in the growth literature in order to understand the interaction of both. Under autarky, the only way to build up a substantial capital stock is through investment. Households face a trade-off between consumption and savings that can be used for capital formation. Moreover, due to diminishing returns to capital and labor, factor income depends solely upon factors' marginal productivity. Once we open those economic growth models to international trade in goods and factors, i.e. migration and foreign direct investments, the pattern of economic growth is substantially different. We have to take the evolution of world prices into consideration, which produces outcomes that are not as straightforward as is the case in more 'basic' frameworks. For example, taking into account the effects of trade on economic growth in developing economies has important repercussions on some of the most important objectives of government policy.

Structure of the course:

1. Introduction
2. The Middle Income Trap
   2.1 Internal Migration and economies of scale effects
   2.2 Agglomeration and migration
3. Economic Growth
   3.1 The Solow (1956) model of economic growth
   3.2 Population growth in the Solow model
   3.3 Economic growth and technological change
   3.4 Growth and internal migration
   3.5 Community enforcement, migration and development
   3.6 Human Capital in the Solow model
   3.7 Empirical application on institutions and growth
4. Canonical Trade Models
   4.1 The Ricardo Model of Comparative Advantage
   4.2 The Heckscher-Ohlin model
   4.3 FDI and outsourcing in a multi-industry framework
   4.4 Migration in the 2 x 2 x 2 model
   4.5 The Mariel boat lift
5. International migration
   5.1 International migration

	5.2 Why do people migrate? 5.3 Who migrates? 5.4 The brain drain 5.5 The effects of immigration on the host country 6. Trade and growth 6.1 Economic growth in open economy models 6.2 Trade and innovation in a North-South framework 6.3 Conclusion References: Acemoglu, D. (2008). Introduction to modern economic growth. Princeton University Press.
4	**Lehrformen** Fernstudium
5	**Teilnahmevoraussetzungen** Formal: Gemäß Prüfungsordnung des jeweiligen Studienganges Inhaltlich: Lehre und Prüfung erfolgen in englischer Sprache. Entsprechende Sprachkenntnisse sind zwingend notwendig. Ansonsten sind keine speziellen Voraussetzungen erforderlich.
6	**Prüfungsformen** Portfolioprüfung bestehend aus: • Hausarbeit (50% der Gesamtnote) einer mündlichen Prüfung (50% der Gesamtnote) die in englischer oder deutscher Sprache stattfinden. Hinweise zum organisatorischen Ablauf der Hausarbeit: Nach Ablauf der Anmeldefrist zur Portfolioprüfung wird es eine Aufgabe geben, die alle Studierenden bearbeiten und einreichen müssen. In dieser Aufgabe sollen realwirtschaftliche Vorgänge mit den Inhalten des Studienbriefs in Zusammenhang gebracht werden. Die Beantwortung der Aufgabe geschieht in Form einer benoteten Hausarbeit.
7	**Voraussetzungen für die Vergabe von Kreditpunkten** Voraussetzung für die Vergabe von Leistungspunkten ist das Erreichen von mindestens 50% der insgesamt möglichen Punkte aus der Hausarbeit und der mündlichen Prüfung. Die Hausarbeit und die mündliche Prüfung sind im gleichen Semester zu absolvieren.
8	**Verwendung des Moduls** Masterstudiengang Wirtschaftswissenschaft Masterstudiengang Volkswirtschaft Masterstudiengang Wirtschaftswissenschaft für Ingenieur/-innen und Naturwissenschaftler/-innen Masterstudiengang Wirtschaftspsychologie Akademiestudium
9	**Stellenwert der Note für die Endnote** Gemäß Prüfungsordnung des jeweiligen Studienganges
10	**Modulbeauftragte/r und hauptamtlich Lehrende** Univ.-Prof. Dr. Hans-Jörg Schmerer
11	**Sonstige Informationen** Zusätzliche Lernmaterialien werden online zur Verfügung gestellt. Weitere Informationen werden auf der Seite des Lehrstuhls veröffentlicht.