

ECS4430: Economics of Latin America

The importance of knowing the economics of the Florida's main trade partners is more than obvious. Yet, the fact that twelve Latin American countries¹ are within this group adds an extra flavor to this knowledge. The economic development of these nations has been focus of discussion and analysis for a long time. In general, periods of rapid growth in the region have been followed by slowdowns in most countries. For example, the Brazilian economy grew by 9.8% a year on average between 1970 and 1974; yet during the 80s this economy grew less than 1%. Mexico's economy average growth rate of 6.5% from 1960 to 1979 also dropped sharply after 1981. Growth performance in the 1990s was affected by a financial crisis in Mexico, Brazil and Argentina among others. By the end of 2007, the region shows strong signs of economic growth for four consecutive years. However, the spread of populist regimes in the area, with Venezuela leading the way, is been viewed as a threat to the economic stability of the region. After 10 years, total foreign debt in the region reached the lowest level in 2007. Is the Latin American debt crisis over? What are the factors that undermine the efforts of these countries to stabilize their economies?

This course is aimed at providing students with an outlook of the complexities and challenges faced by Latin American economies. The course places special attention on the cultural and institutional particularities of these countries as fundamental elements having an impact on economic issues. The approach of the course focuses on three main aspects: the understanding of macroeconomic policies directed toward stabilizing these challenged economies; the consideration of the microeconomic structure particular to these nations and finally, how these countries have undertaken trade activities within the region and with the rest of the world.

It is not possible to escape from a historical review of the economic issues faced by Latin American countries since they paved the road ending on most of these nations today's economic situation. For example, the merits of "dollarization" in scenarios of hyperinflation in the early 2000s, is reviewed for the case of Ecuador, El Salvador and Argentina. The role of fixed exchange rates in the Peruvian 1990s hyperinflation crisis will follow the same analytical scheme. We will investigate how Brazil managed to overcome the impact of presidential elections on the country's economic performance in 2002. More recently, in 2007, our concern will be how to cope with inflationary pressures in countries registering high inflation rates. We refer to current price controls in Venezuela and Argentina. In addition, the role of infrastructure services is been recognized as critical for sustainable development and as a necessary condition for reaching economic and social goals in the region. Key aspects of infrastructure reform will be examined.

The diversity of economic characteristics in the region makes generalization a challenge for any Latin America economics course. With this in mind, the intent is to maximize the student in-class learning by facilitating an enriched view of the economic particularities of these countries under a common framework of economic concepts. Students will be assigned with a consulting project related to an economic issue faced by a Latin American country of their choice. Very specific guidelines regarding the aspects to cover and how to undertake this research will be provided in class. The project analysis will build up from class topics and concepts and will improve individual learning and group working skills. Project presentations will allow students to improve communication skills while sharing the social, political and economic characteristics of each country in class.

¹ Brazil, Venezuela, Mexico, Colombia, Dominican Republic, Chile, Argentina, Paraguay, Guatemala, Costa Rica, Ecuador, Peru. The value of exports to Brazil is approximately \$3 billion and to Venezuela and Mexico \$2 billion (U.S. Department of Commerce)

Textbook:

-Patrice Franko, 2007 "The puzzle of Latin American Economic Development" Rowman & Littlefield publishers. 3rd edition

Reference Books:

- Sebastian Edwards, 1995 "Crisis and Reform in Latin America: from Despair to Hope" Oxford University Press
- Javier Santiso, 2007 "Latin America's Political Economy of the Possible" MIT press
- Robert Feenstra & Alan Taylor, 2008 "International Macroeconomics" Worth Publishers
- Ioannis Kessides, 2004 "Reforming Infrastructure: privatization, regulation and competition" The World Bank publications.

Reference Web links:

2007 Latin American Business Report, Terry McCoy

<http://www.latam.ufl.edu/labe/Content/LABER2007.pdf>

"A decade of structural reforms in Latin America; what has been reformed and how to measure it", Lora, Eduardo, 2001.

<http://www.iadb.org/res/publications/pubfiles/pubWP-466.pdf>

Economic Commission for Latin America and the Caribbean (United Nations- ECLAC portal):

<http://www.eclac.cl/default.asp?idioma=IN>

Latin American and Caribbean basic economic indicators

http://www.eclac.org/publicaciones/xml/3/27543/lcg2327_i_Statistical_Appendix.pdf

News and data for individual LA countries: <http://www.latin-focus.com/>

The Peterson Institute for international economics: <http://www.iie.com/>

The CIA world fact book: <https://www.cia.gov/library/publications/the-world-factbook/> - country base

The World Bank: <http://www.worldbank.org/> - region or country base

The Inter-American Development Bank: <http://www.iadb.org/>

Course Requirements:

2 tests – 60%

Team project – 35%

Attendance & participation in class discussions – 5%

Case projects: a sample of topics

Brazil (Ch 5), Mexico (Ch6), Argentina (Ch 7) in Javier Santiso

Environmental challenges in Latin America (Ch 14); Education and Growth (Ch 13) in Patrice Franko

COURSE SCHEDULE

- 1) Economic development and economic growth.
 - Distinguishing between growth and development
 - Different perspectives in measuring economic growth
 - Macroeconomic issues: unemployment & inflation
 - Latin America – macroeconomic indicators, summary of statistics 2008
 - Historical legacies
Patrice Franko Chapters 1, 2 & 9
Sebastian Edwards Chapter 1

- 2) Looking inward
 - The import substitution period: performance & crisis
 - Tools of protectionism: export subsidies, foreign exchange controls, quota and tariffs
Patrice Franko Chapter 3
Sebastian Edwards Chapter 2

- 3) Debt and distinct patterns of development
 - Understanding debt terminology
 - Overvaluation of exchange rates
 - Oil shocks and debt crisis
 - Case: Oil producers in Latin America
Patrice Franko Chapter 4
Sebastian Edwards Chapter 3

- 4) Macroeconomic Stabilization
 - Theories of inflation
 - The exchange rate regime and inflation: dollarization, fixed rate and floating rate
 - Case: Dollarization in Ecuador
 - Case: The Peruvian economic crisis of early 1990s and the fixed exchange rate policy
 - Case: Hyperinflation and recession in Bolivia
 - Case: The convertibility plan in Argentina
Patrice Franko Chapter 5
Sebastian Edwards Chapter 4

- 5) Sources of capital, capital mobility and financing development
 - The role of Capital inflow
 - Case: the Mexican Peso crisis
 - Case: Regulating capital inflows in Chile
Patrice Franko Chapter 7

- 6) Microeconomic structural adjustment
 - Government size, privatization and infrastructure
Patrice Franko Chapters 6 & 9
Sebastian Edwards Chapter 6
Kessides Chapter 1

- 7) Globalization and its impact in the region
 - Trade liberalization and productivity growth
 - Trading blocks in the region
 - The role of real exchange rates in determining the success of trade reforms
Patrice Franko Chapter 7, 8
Sebastian Edwards Chapter 5