

Economics 166 (Call # 00735):

Topics in the Macroeconomics of Regions and Nations

Braker 222, M W 4:00 — 5:15pm, (K+).

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Office hours: Tuesdays 9:00–11:00am, Wednesdays 1:30–2:30pm.

Other times by appointment. You may also contact me by email in order to communicate with me or set up an appointment as well.

COURSE DESCRIPTION

The traditional boundaries between nations and regions are becoming blurred, especially for countries that have entered into free trade agreements with one another, such as the members of the European Union, the members of the North American Free Trade Agreement, to some extent, and others. Elsewhere in the world national boundaries have been reconstructed (Former Soviet Union, etc.) Conventional distinctions between international and regional economics are much less valid. Capital flows are overwhelming national economies. Is the emerging regionalism in international trade patterns leading to a “seamless world,” as some people put it? Is globalization a new phenomenon? Is it likely that fewer currencies would effectively survive in the world economy? How might the “new economy” be affecting the world economy? In what sense, if any, geographical space *matters*?

This course addresses itself to topics in the interface of economic geography and international economics. While there has always been a natural interface between economic geography and international trade, the relevance of international macroeconomics is newer. It has to do with the impact on an economy from adoption of preferential currency arrangements, including monetary union.

To understand many traditional macroeconomic phenomena in such settings we need to look carefully at the internal structure of the economy that is most relevant to space, that is as spatial and urban/regional structure. This course will examine consequences of such structural aspects of the economy for international interdependence and vice versa. These forces, as we shall see, have consequences for income distribution, as well. We will study macroeconomic implications of the regional structure of the member states of the European Union and compare it with that of United States economy. We shall strategic aspects of economic interdependence, the impact of modern communication technologies upon international economic integration, and other topics.

Here is a list of topics to be covered in more detail. Economic integration, trade and economic unions. Exchange rate regimes. Monetary unions: theoretical aspects; European monetary union. The European Central Bank vs.the US Federal Reserve System. Does the European Union need a fiscal system? The Dollar, the Euro and the Yen. Geography and trade; economic geography; economic growth and geography. Cities, regions and international trade. International trade and income distribution. Regionalism and International Trade. International trade and globalization.

The course is designed as an advanced special topics course and is intended to provide a capstone experience. It will rely heavily on student participation. Students will write two papers, one of which will be a major research paper and will provide the basis for class presentations. There will also be a midterm quiz and a final. Students will make formal presentations on some of the readings.

Last but not least, I urge all of you to become acquainted with the academic integrity policies at Tufts University. Please check the following site and its hyperlinks:

<http://ase.tufts.edu/Infobook/facilities/integrity.htm>

Prerequisites: EC 11, 12 and at least one international economics course, or consent of instructor. Please do talk to me if you are interested in the course but feel uneasy about the prerequisites. You might be sufficiently prepared for it.

Administrative Aspects

There will be two short papers, a major term paper, a midterm quiz and a final. The timing of requirements and exams and their contribution to the course grade are as follows.

- *Brief* class presentation, on the topic: “The U.S. Dollar versus the Euro.” Written version with maximum length four pages; no proposal is required. It will be scheduled around September 24. It will count towards 5% of the course grade. The emphasis in this assignment is on presentation skills! You may use textbooks, newspapers and magazines to research the subject.
- *Proposal* for the *major* paper: due Wednesday, October 1; 5% of course grade.
- Midterm quiz: Wednesday, October 15. 10% of the course grade.
- *Short* paper. Length: six to eight pages, no proposal required. Due: Wednesday, October 22. It will count towards 10% of the course grade.
- Draft of the major paper: Wednesday, November 5; 5% of course grade.
- Major paper: due Monday, November 24; 35% of course grade.
- Class presentations of the major papers will be integrated into the course and will be scheduled for the week after the Thanksgiving break.
- Final exam (as scheduled by the Registrar): Wednesday, December 17, 3:30–5:30am. The final exam will be cumulative and will count towards 25% of the course grade.

An additional 5% will be based on your class participation, which will include your performance in presenting your papers and other assignments. Class presentations are important opportunities for you to practice presentation skills.

The short paper no. 2 may be a serious book review or a short research paper. The major paper must be a serious scholarly research paper. Please obtain a copy of the Library’s mini courses schedule for the use of information technologies and plan to attend as soon as possible. The class as a group will meet in the ERC, Tisch Library, September 30, during the usual class time for a special course with Pauline Boucher, a research librarian.

A web page for this class has been set up: <http://crs.ase.tufts.edu>

Books and Readings

The following books have been ordered through the bookstore and are required for the course:

1. van Marrewijk, Charles (2002), *International Trade and the World Economy*, Oxford University Press, Oxford and New York. [CvM]

This is a brand new text, in the “European style,” meaning a little too analytically complicated. When the going gets rough, we will simplify the material by drawing from other sources.

2. DeGrauwe, Paul (2003), *Economics of Monetary Union*, fifth edition, Oxford University Press, Oxford and New York. [PDG]

This is a self-contained text on the topic that a substantial part of the course is dedicated to. Again, it is in the “European style,” but may be read easily by all of you.

The following books contain fairly long sections of assigned material and will be put on reserve in Tisch Library.

1. Brakman, Steven, Harry Garretsen, and Charles van Marrewijk (2001), *An Introduction to Geographical Economics*, Cambridge University Press, Cambridge and New York. [BGvM]
2. Eichengreen, Barry (1997), *European Monetary Unification: Theory, Practice and Analysis*, MIT Press, Cambridge, MA.
3. Kenen, Peter (1995), *Economic and Monetary Union in Europe*, Cambridge University Press, New York.
4. Krugman, Paul R. (1991), *Geography and Trade*, MIT Press, Cambridge, MA.
5. Krugman, P. R., and M. Obstfeld (2000), *International Economics: Theory and Policy*, Addison-Wesley-Longman, Reading, MA.

This is a well known text.

6. Neal, Larry, and Daniel Barbezat (1998), *The Economics of the European Union and the Economies of Europe*, Oxford University Press, Oxford, England.

This last book provides a lot of institutional material about the economies of Europe.

To avoid repetition, references to the above sources will be made by author’s last name and year of publication. In addition, a large number of papers and sections from books will serve as suggested readings. All assigned reading that may be unavailable in the library (eg., material not yet published) will be placed on **reserve** in the Tisch Library. However, because of a maximum of 25 items which may be placed on reserve for a course, any additional material will be made available by the instructor to students interested in reproducing it. Items marked by an asterisk below have not been placed on reserve. Some of the readings are downloadable *free* of charge only if you are accessing them from a Tufts IP address. Items marked by [A,n] are to be assigned for class presentation by n students.

Some of the readings are quantitative and advanced. You will not be held responsible for working through their complicated analytics. In fact, not all of the readings will be read by all of you. You will only be responsible for the level of rigor of the material as determined in class

presentations and discussions. However, even very technical papers may be very useful and their economics accessible, if you read and think about the text, not the math. The length of the reading list reflects my desire to list as many current works as possible, so as to help you get started on your research.

The new European currency, the *euro*, was officially launched on January 1, 1999, and is currently in use in electronic and paper transactions throughout the world. It is currently set to replace the French franc, the Belgian franc, the Dutch guilder, the German mark, the Austrian shilling, the Finnish mark, the Italian lire, the Irish pound, the Spanish peseta, the Greek drachma, and the Portuguese escudo on January 1, 2001. Economic and Monetary Union in Europe will receive particular attention this year, in part because of its general importance and of the attention it is attracting in the financial, and indeed the entire, press, as well.

1 Economic Integration, Trade and Economic Unions

1.1 International Trade

Our objective here is to provide a brief review of international trade theory with an emphasis on recent developments that are particularly relevant to the study of economic integration.

1. Krugman, P. R., and M. Obstfeld (1996), *International Economics*, Ch. 5, “The Standard Trade Model,” pp. 93–116. Chapters 1–4 will be reviewed.
2. Krugman, P. R., and M. Obstfeld (1996), *International Economics*, Ch. 6, “Economies of Scale, Imperfect Competition, and International Trade,” p. 121–156.
3. Flam, H. R. (1992), “Product Markets and 1992: Full Integration, Large Gains,” *The Journal of Economic Perspectives*, 6, 4, 7–30. www.jstor.org
4. Allen, Chris, Michael Gasiorek, and Alasdair Smith (1998), “The Competition Effects of the Single Market in Europe,” *Economic Policy*, (1998), volume 27, 441–486. [A,2] On reserve

1.2 Monetary Unions: Theoretical Aspects

1. PDG, p. 5–93.
2. Frankel, Jeffrey A. (1999), “No Single Currency Regime Is Right for All Countries or at All Times,” working paper No. 7338, September, National Bureau of Economic Research: www.nber.org/papers/w7338
3. Mundell, R. A. (1961), “A Theory of Optimum Currency Areas,” *American Economic Review*, 51, 657–665. Downloadable from www.jstor.org.
4. Rolnick, A. J., B. D. Smith, and W. E. Weber (1993), “In Order to Form a More Perfect Monetary Union,” *Federal Reserve Bank of Minneapolis Quarterly Review*, Fall, 2–10. [A,1] On reserve

5. Eichengreen, B. (1997), *European Monetary Unification: Theory, Practice and Analysis*, MIT Press, Cambridge, MA, Ch. 2, “ One Money for Europe? Lessons from the U.S. Currency Union,” 13–49. [A,2]

1.3 Monetary Union in Europe

1.4 Background Material on European economies and the European Union

There is a vast amount of material on the EMU; too vast to even contemplate!

1. Alesina, Alberto, Ignazio Angeloni, and Ludger Schuknecht (2001), “ What Does the European Union Do?” National Bureau of Economic Research, working paper 8647, December: www.nber.org/papers/w8647
2. Neal, Larry, and Daniel Barbezat (1998), *The Economics of the European Union and the Economies of Europe*.
3. *Alesina, Alberto, and Romain Wacziarg (1999), “Is Europe Going too Far?” National Bureau of Economic Research, working paper 6883, January. Downloadable from www.nber.org/papers/w6883 [A,2]

1.5 EMU Design

1. PDG, p. 128–149.
2. Kenen (1995), 1–18.
3. Bean, C. R. (1992), “Economic and Monetary Union in Europe, ” *Journal of Economic Perspectives*, 6, 4, 31–52. www.jstor.org.
4. Eichengreen, B. (1997), *op. cit.*, Ch. 3, “Is Europe an Optimum Currency Area?,” 51–71. On reserve.
5. Feldstein, M. S. (1997), “The Political Economy of the European Economic and Monetary Union,” *Journal of Economic Perspectives*, 11, 4, 23–42. [A,1] www.jstor.org.
6. Wyplosz, Charles (1997), “EMU: Why and How It Might Happen,” *Journal of Economic Perspectives*, 11, 4, 3–22. www.jstor.org.

1.6 The European Central Bank

1. PDG, p. 150–194.
2. Kenen (1995), 19–79.

3. Goodfriend, Marvin (2000), "The Role of a Regional Bank in A System of Central Banks," *Federal Reserve Bank of Richmond Economic Quarterly*, 86/1, 7–25. On reserve.
4. Duisenberg, Willem F. (1999), "Economic and Monetary Union in Europe— The Challenges Ahead," 185–194, in *New Challenges for Monetary Policy*, Federal Reserve Bank of Kansas City, August. Downloadable from:
<http://www.kc.frb.org/PUBLICAT/SYMP0S/1999/S99duis.pdf>
 See also: <http://www.ecb.int/key/02/sp020516.htm>
5. Bertaut, Carol (2002), "The European Central Bank and the Eurosystem," *New England Economic Review*, 25–28. On reserve
6. * Dornbusch, Rudi, Carlo Favero and Francesco Giavazzi "Immediate Challenges for the European Central Bank," *Economic Policy*, V. 26, 17–64. On reserve.

1.7 Does The EU Need a Fiscal System? Economic Union vs. Political Union in Europe

1. PDG, p. 195–215.
2. Kenen (1995), 80–107.
3. Wildasin, David (2000), "Factor Mobility and Fiscal Policy in the EU: Policy Issues and Analytical Approaches," *Economic Policy*, 31, October, 339–378.
4. *Fatás, Antonio (1998), "Does EMU Need a Fiscal Federation?" *Economic Policy*, V. 26, 165–203. On reserve.
5. *Eichengreen, Barry (1997), *op. cit.*, Ch. 8 and 9, "The Political Economy of Fiscal Restrictions: Implications for Europe from the United States," and "Fiscal Policy and Monetary Union: Is There a Tradeoff between Federalism and Fiscal Restrictions," 225–245. On reserve.
6. *Krugman, Paul (1993), "Lessons of Massachusetts for EMU," in Torres, Francisco, and Francesco Giavazzi, *Adjustment and Growth in the European Monetary Union*, Cambridge University Press, 241–269. [A,1] On reserve.
7. *Eichengreen, Barry (1997), *op. cit.*, Ch. 10, "A More Perfect Union? On The Logic of Economic Integration," 247–269.

1.8 The Dollar, the Euro and the Yen

1. PDG, p. 216–226.
2. Kenen (1995), 108–123.

3. Henning, C. Randall, and Pier Carlo Padoan (2000), *Transatlantic Perspectives on the Euro*, Brookings Institution Press. On reserve.
4. Coffey, Peter (2000) *The Euro*, Continuum, London and New York. On reserve.
5. *Portes, Richard, and Hélène Rey (1998), “The Emergence of the Euro as an International Currency,” *Economic Policy*, V. 26, 307–343. On reserve.

2 Geography and Trade

1. BGvM, Ch. 1, 2, 3, 5.
2. *Krugman, Paul R., (1991) *Geography and Trade*, MIT Press, Cambridge, MA. On reserve.
3. Kim, Sukkoo (1995), “Expansion of Markets and the Geographic Distribution of Economic Activities: The Trends in U.S. Regional Manufacturing Structure, 1860–1987,” *Quarterly Journal of Economics*, CX, 881–908. www.jstor.org.
4. Midelfart-Knarvik, Karen-Helene, Henry G. Overman, S. J. Redding, and Anthony J. Venables (2000), “The Location of European Industry,” Economic papers No. 142, Directorate General for Economic and Financial Affairs, European Commission, Brussels, April. Downloadable from <http://cep.lse.ac.uk/overman>.
5. Midelfart-Knarvik, Karen Helene, Henry G. Overman and Anthony J. Venables (2000), “Comparative Advantage and Economic Geography: Estimating the Location of Production in the EU,” discussion paper; downloadable from <http://cep.lse.ac.uk/overman>.
6. *Davis, Donald, and David E. Weinstein (1999), “Economic Geography and Regional Production Structure: An Empirical Investigation,” *European Economic Review*, 43, 379–407.
7. *Thisse, Jacques (2000), “Agglomeration and Regional Imbalance: Why? and Is it Bad,” Regional Development in Europe: Theory and Empirical Evidence, *European Investment Bank Cahiers/Papers*, 5, 1, 47–67. On reserve.

2.1 European Integration and the Regions of Europe

1. Martin, Philippe (1999), “Are European Regional Policies Delivering?” *European Investment Bank Cahiers/Papers*, 4, 2, 10–23. On reserve.
2. Hurst, Christopher, *et al.*, (2000), “What Diagnosis for Europe’s Ailing Regions?” Regional Development in Europe: An Assessment of Policy Strategies, *European Investment Bank Cahiers/Papers*, 5, 1, 9–29. On reserve.
3. See additional papers in the *European Investment Bank Cahiers/Papers*, (2000) Vol. 5, No. 1 and No. 2. On reserve. [A,6]

4. Boldrin, Michele, and Fabio Canova (2001), “Inequality and Convergence in Europe’s regions: Reconsidering European Regional Policies,” *Economic Policy*, 32, April, 205–253.
5. Braunerhjelm, Pontus *et al.* (2000), *Integration and The Regions of Europe: How The Right Policies Can Prevent Polarization*, Monitoring European Integration 10, Centre for Economic Policy Research, London. On reserve.

3 Cities in the Regional, National and International Context

1. Brakman *et al.*, Ch. 7, 218–231.
2. “Dynamic Cities as Engines of Growth,” Ch. 6, *World Development Report 1999/2000*, the World Bank, 125–138. Downloadable from: www.worldbank.org/wdr/2000/pdfs/chap6.pdf
3. Kim, Sukkoo (1999), “Urban Development in the United States, 1690 – 1990,” National Bureau of Economic Research, Working Paper 7120, May. Downloadable from www.nber.org/papers/w7120.
4. Hanson, Gordon (2000), “Market Potential, Increasing Returns, and Geographic Concentration,” working paper. Downloadable from Hanson’s University of California San Diego web page.
5. Henderson, J. Vernon (1997), “Medium Size Cities,” *Regional Science and Urban Economics*, 27, 583–612. Downloadable from the electronic version of the journal.
6. Fujita, Masahisa, and Takatoshi Tabuchi (1997), “Regional Growth in Postwar Japan,” *Regional Science and Urban Economics*, 27, 643–670. Downloadable from the electronic version of the journal.
7. Quigley, John M. (1998), “Urban Diversity and Economic Growth,” *Journal of Economic Perspectives*, 12, 127–138. www.jstor.org
8. Glaeser, Edward L. (1998), “Are Cities Dying?” *Journal of Economic Perspectives*, 12, 161–174. www.jstor.org
9. Krugman, Paul (1998), “Space: The Final Frontier,” *Journal of Economic Perspectives*, 12, 161–174. www.jstor.org

4 International Trade, Geography and Economic Development

1. BGvM, Ch. 9, and p. 313–325.

2. Gallop, John, Jeffrey Sachs, and Andrew D. Mellinger (1999) “Geography and Economic Development,” 127–188, in Pleskovic, Boris, and Joseph E. Stiglitz, eds., *Annual World Bank Conference on Development Economics, 1998*, The World Bank. On reserve. Also, downloadable from www.worldbank.org.
3. Krugman, Paul, “The Role of Geography in Development,” 89–125, in Pleskovic, Boris, and Joseph E. Stiglitz, eds., *Annual World Bank Conference on Development Economics, 1998*, The World Bank. On reserve.

4.1 Regionalism and International Trade

1. Frankel, Jeffrey A. (1997), *Regional Trading Blocks in the World Economic System*, Institute for International Economics, Washington, DC. On reserve
2. Frankel, *Jeffrey A. (1998), *The Regionalization of the World Economy*, University of Chicago Press.

4.2 International Trade and Globalization

1. *Journal of Economic Perspectives*, 12, 4, Fall 1998, Symposium on Globalization. All items are downloadable from: www.jstor.org

Rodrik, Dani, “Symposium on Globalization: An Introduction,” *ibid.*, 3–8. [A,1]

Obstfeld, Maurice, “The Global Capital Market: Benefactor or Menace?,” *ibid.*, 9–30. [A,1]

Feenstra, Robert, “Integration of Trade and Disintegration of Production in the Global Economy,” *ibid.*, 31–50.[A,1]

Williamson, Jeffrey, and Peter Lindert, (2001) “Does Globalization Make the World more Unequal?” NBER working paper No. 8228, April [A,1]; ; downloadable from:

www.nber.org/papers/w8228

*Stiglitz, Joseph E., *Globalization and its Discontents*, W. W. Norton, 2002. This is a much discussed, and slightly polemical book by a real insider and a towering scholar (Nobel Laureate 2001), that has attacked the so-called “Washington Consensus,” and rocked the multilateral aid agency establishment.

5 Additional Issues on the EMU: Environment, Transition, Political Integration and Enlargement

5.1 Transition

1. Kenen (1995), 124–194.

2. *Obstfeld, Maurice (1998), "EMU: Ready or Not?" NBER working paper No. 6682, August. Downloadable from www.nber.org/papers/w6682.

5.2 EU Policies and the Environment

3. Mahé, Louis Pascal, and Francois Ortalo-Magné, (1999), "Five Proposals for a European Model of the Countryside," *Economic Policy*, April, 89–131. On reserve. [A,2]

5.3 Enlargement: The View from the North

4. EMU Expert Group Report (1997), *Finland and EMU*, The Prime Minister's Office (*Valtionneuvoston Kanslia*), Publication 1997/26. On reserve. [A,4]

5.4 Enlargement: The View towards Central and Eastern Europe

5. Baldwin, Richard, *et al.*, (1995), *Expanding Membership of the European Union*, Cambridge University Press, Cambridge. On reserve.
6. Bofinger, Peter, "The Political Economy of Eastern Enlargement," 273–325, in Eichengreen, Barry, and Jeffrey Frieden, Eds., (1998), *Forging an Integrated Europe*, the University of Michigan Press. On reserve.
7. *Baldwin, Richard E. (1994), *Towards an Integrated Europe*, Centre for Economic Policy Research, London, 155–224.