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## Business, Government and the Global Economy

Prof. EMILIO COLOMBO

### COURSE DESCRIPTION

The aim of this course is to analyse the key factors that affect the competitive position of a nation by investigating the economic forces that drive trade integration and how globalisation is changing the macroeconomic scenario. The course will give some answers on the most important questions related to the international economy. What drives the competitiveness of nations? Are emerging nations competing unfairly due to lower wages? Should we be scared of Chinese competitiveness? What is the role played by multinationals in the world economy? What explains the current stalemate in the world trading system? How trading rules can be modified to help poorer countries to grow faster? What are the causes of the European debt problem? What are the likely consequences?

The course will provide answers to these and other questions by mixing economic theory with facts and case studies. A strong emphasis will be placed on the role of government and international institutions in regulating trade and financial flows and in setting the needed standards.

### PREREQUISITES

Principles of Economics

### METHOD OF PRESENTATION

Lectures, group work and in-class discussion

### LEARNING GOALS

By the end of the course students are expected to be able to:

- ✓ Analyse the determinants of competitiveness of nations
- ✓ Understand the functioning of the world trading system
- ✓ Understand the challenges of globalization and market integration
- ✓ Understand the different viewpoints on the European debt crisis

### COURSE REQUIREMENTS

Students are expected to comply with the following requirements:

- Regularly attend classes and actively participate to the discussions and debates
- Study in advance the assigned course readings
- Present a short oral presentation on a course related subject (group project and presentation)
- Take a final written exam (final exam)



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## EVALUATION

Description	Share of the final mark	Timing
Attendance	20 %	
Midterm assessment	40 %	Beginning of week 2
Final exam	40 %	End week 3

## DETAILED DESCRIPTION OF ASSIGNMENTS

The **mid term assessment** will be based on the argument of Dumping. Students will be required to form groups (min 2 max 3 participants). Each group will consider a case of dumping on a specific product. The group will deliver a report (approx 15 pages) stating the problem, how the dumping case was assessed, and analysing the consequences of the anti-dumping measures undertaken. Essays will have to be handed in by email by the time set by the instructor

The **final exam** will be a written exam composed of two parts: part a) 10 multiple choice questions, part b ) 2 essay question to be chosen among 3 questions. The weights on the two parts of the final exam are 40% part a and 60% part b

## READINGS:

There is not a formal textbook. The instructor will make available the slides at the end of each class. For those who are not familiar with the topics covered and want to investigate these issues more thoroughly the following textbooks can be used (the textbooks are substitutes)

1. [KO] Krugman and Obstfeld, International Economics: Theory and Policy. 7th ed. Addison-Wesley [KO].
2. Caves, Frankel & Jones. World Trade and Payments. 10th ed. Addison-Wesley.

The syllabus below reports as reference the chapter of the first textbook for each topic

Additional readings are reported subsequently for every topic

## COURSE CONTENTS SUMMARY

### TOPIC 1: THE LONG RUN, GROWTH INEQUALITY AND INDUSTRIAL DEVELOPMENT

#### Key topics:

- Presentation of the course: aims, organization and overview of the syllabus
- Assignments and evaluations: presentation and suggestions
- Introduction to long run growth



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- Growth facts.
- Growth and inequality
- Growth industrial development and specialization

#### Readings:

- › Lecture notes
- › Rodrik 2011, The future of Economic Convergence, mimeo.
- › Rodrik: Structural Change, Fundamentals and Growth, an Overview, mimeo, Princeton university

### TOPIC 2: WHAT DRIVES THE COMPETITIVENESS OF NATIONS? COMPARATIVE ADVANTAGES

**Key topics:** this class will analyse the first obvious determinant of comparative advantages: technological differences and differences in factor endowment. We will build a framework with which we can ask what are the factors underlying trade between advanced countries that are on the technological frontier (i.e. the US) and poor countries (i.e. Africa)

#### Readings:

- › Lecture notes/slides, KO Ch.3, 4

### TOPIC 3: TRADE AND MARKET SIZE

**Key topics:** not all trade occurs between countries with large differences in terms of technology or factor endowment. For example the majority of trade in Europe occurs within it i.e. among European countries. Therefore other factors must be at work as determinants for this type of trade. An obvious candidate is market size. In other words having access to a larger market (i.e. the European market) could be per se a reason for opening up to trade. This topic will cover also the strategies of internationalisation in the car industry and will prepare students for the company visit.

#### Readings:

- › Lecture notes/slides, KO Ch.6.
- › Made in Torino? The car industry and the FCA case study.

### TOPIC 4: DUMPING

**Key topics:** having analysed the main determinants of trade: comparative advantages on the one hand and market size on the other, in this class we will try to have a complete picture putting together the different aspects and effects of trade integration

#### Readings

- › Lecture notes/slides



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## TOPIC 5: THE INTERNALISATION OF BUSINESS

**Key topics:** what is the internationalisation strategy of business firms? Is there a constraint of size on internalisation? Is it only applicable to standard manufacturing production or internalisation can be applied to sector that are generally considered as domestic? This topic will introduce the case study of the Italian food sector and will prepare students for the visit to Eataly.

### Readings

- › Lecture notes/slides

## TOPIC 6: RESOURCE TRADE, OUTSOURCING, AND PRODUCT FRAGMENTATION

**Key topics:** countries trade not only goods and services but also factors of production, i.e. capital and labour. We will concentrate on movement of capitals and in particular on one way of transferring capital: the one through multinational firms. We will investigate the key aspects of multinational firms and the problems associated with them.

### Readings

- › KO Ch.7
- › Pol Antras: Lecture 1
- › Pol Antras Lecture 2
- › Feenstra Robert, (1998) "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, pp. 31-50.
- › Bhagwati, Jagdish, Arvind Panagariya, and T.N. Srinivasan (2004). "The Muddles over Outsourcing" *Journal of Economic Perspectives*, 18(4): 93-114.
- › Bhagwati, Jagdish, (2007), "Why Multinationals Help Reduce Poverty", *The World Economy*, pp. 211-228

## TOPIC 7: TARIFFS TAXES, AND THE INTERNATIONAL TRADING SYSTEM

**Key topics:** despite the fact that trade is good for the economy, in practice many countries protect themselves limiting trade. We will analyse the tools used for restricting trade (quotas, import taxes, export subsidies etc.) and the reasons for doing it.

### Readings:

- › Lecture notes/slides, KO Ch.8



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## BIO OF INSTRUCTOR

**Emilio Colombo** earned a PhD in Economics from the University of Southampton. He is currently Associate Professor at Università degli Studi di Milano-Bicocca, where he has taught lectures and seminars on International Trade, International Macroeconomics and Finance, Economics of European Integration, and a Master's course in Finance and Risk Management. His research interests include Transitional Economies, International Economics and Macroeconomics. Professor Colombo has published several papers in top level journal such as: Journal of International Money and Finance, European Journal of Political, Journal of Comparative Economics, Journal of Applied Econometrics, Journal of Banking and Finance.