Chapter 1: A Second Wave of Globalization

Teaching notes.

This chapter has three aims: (i) Introduction of some of the most important historical trends collectively described as 'globalization,' along with a definition of that term in its various forms. (ii) Introduction of the core concept of the three big reasons for trade, which provide the three branches of trade theory and thus the three big branches of the 'family tree of trade models,' provided at the end of the book and which serves as a map to the theories presented throughout the text. (iii) Provide some familiarity with some basic stylized facts regarding globalization worldwide. The last of these is partly relegated to the spreadsheet problems at the end of the chapter. In case there are students who are not familiar with basic spreadsheet operations, it may be useful for a TA to provide an optional tutorial on their use, but the great majority of undergraduates are conversant enough with spreadsheets to do these problems without help. The family tree is likely to be a great aid to students in keeping track of the relationships between the various models as the course goes on, and so it is recommended to introduce them to it at some point in class.

Solutions.

Problem 1-1
(Note: Clearly there is no one correct answer to this question.) The improvement of the technologies for tracking and shipping, such as bar code scanners and software, has lowered trade costs by allowing for easier and faster transportation. Another example is the development of technologies allowing for better conservation of perishable goods.

A policy that promotes globalization is the end of the Multifibre arrangement, a system of quotas restricting the exports of textiles and garments from developing to developed nations. This system ended the first day of 2005. Another is the European Union's Everything But Arms initiative, entered into in 2001, under which developing country exports can enter the EU duty-free (except, of course, for armament, as the name implies).

Problem 1-2
(Note: See accompanying spreadsheet for more detail. It is recommended that students do not hand in a spreadsheet or printouts from a spreadsheet, but rather present a brief report on their findings from the spreadsheet with a level of detail roughly comparable to what is presented here.)

The average level of openness in the world increased between 1971 and 2001, from 54.8% to 80.0%. It had a slight fall between 1981 and 1991. Openness in each year is calculated in columns AA through AD in the spreadsheet, and the average across countries for each year is shown at the top.

Problem 1-3

Out of 105 countries in the sample, openness between 1991 and 2001 increases in 79 of them. The rest, 26, experience a decrease. Column AG in the spreadsheet has a "1" for countries where openness increased between these years, and a 0 for the countries where it decreased.

Problem 1-4

The 20 largest and 20 smallest countries in terms of population (in 2001) are shown in column AJ. Their openness is shown in column AL. Average openness (in 2001) for the 20 largest countries is 54.4%, and for the 20 smallest, 118.2%.

Problem 1-5

The 20 richest and 20 poorest countries in terms of GDP per capita (in 2001) are shown in column AP. Their openness is shown in column AR. Average openness (in 2001) for the 20 richest countries is 1.003, and for the 20 poorest, 0.603.

Problem 1-6

Based on the results found above, smaller and richer countries tend to be more open. Smaller countries tend to produce a more narrow range of products and thus meet more of their consumption needs through imports. The relationship between wealth and openness is harder to disentangle. It could potentially mean that trade promotes growth and open countries become rich – a possibility explored in Chapter 9. It could also mean that wealthier countries have better policies in general, and that having low barriers on trade is an example of that, or that consumers in wealthier countries consume a broader range of consumption goods other things being equal and so tend to import a larger fraction of their consumption.