

ECO-2113/Fall 2009

Classroom: STEA0150

CANADA AND THE WORLD ECONOMY

Richard Roy

rroy@uottawa.ca

Consultation hours: Tuesdays from 1 to 4 pm, Desmarais 10101D (613-562-5800 ext 1374)

COURSE DESCRIPTION

The purpose of this course is to provide students with an overview of the Canadian economy in the world and an understanding of the related major economic policy issues. It covers in a very intuitive way basic international trade theories, open-economy national accounting practices, and exchange rates theories. The focus of the course is on the economic policy issues associated with international trade. Discussions on policy include topics such as the degree to which Canada should have an open trade regime, or whether Canada should reduce its dependence on the United States economy, restrict or not foreign direct investment, or adopt a fixed exchange rate regime with the United States. Recent specific policy debates among economists and economic policy analysts will be used to illustrate the various arguments for or against a given policy direction. The last portion of the course will feature Canada's relative economic performance in the group of developed economies and the challenges and opportunities that arise from recent trends toward increased globalization of the world economies.

STUDENT EVALUATION

Two one-hour interim examinations at 25% each for 50%

One final exam for 50%

LECTURE TOPICS

LECTURE	TOPIC
1 (September 14)	Introduction <ul style="list-style-type: none">• Canada as a Trading Nation• Why Do Nations Trade?
2 (September 21)	Trade Theory, economic growth and standards of living <ul style="list-style-type: none">• Absolute Advantage and Comparative Advantage• Terms of trade and standards of living
3 (September 28)	Factors Movements and Open-Economy Accounting <ul style="list-style-type: none">• International Factor Movements• National Income Accounting and the Balance of Payments
October 5	FIRST INTERIM EXAMINATION (One hour, 7 to 8)
4 (October 5)	Exchange Rates <ul style="list-style-type: none">• The Foreign Exchange Market• Purchasing Power Parity• Output and the Exchange Rate

5 (October 19)	Exchange Rate Regimes and Macro Adjustments <ul style="list-style-type: none"> • Fixed versus Floating Exchange Rates • Natural Resources and the Exchange Rate
6 (October 26)	The Political Economy of Trade Policy <ul style="list-style-type: none"> • The Case for and Against Free Trade • Industrial Policy in Developed Economies
7 (November 2)	Canada's Trade Policy <ul style="list-style-type: none"> • Trade and FDI Policy in Canada
November 9	SECOND INTERIM EXAMINATION (One Hour, 7 to 8)
8 (November 9)	Canada's Trade Policy (cont'd) <ul style="list-style-type: none"> • Key issues on Canadian trade policy
9 (November 16)	The Rise of Low-Cost Emerging Economies <ul style="list-style-type: none"> • Asia Comparative and Absolute Advantages • Challenges and Opportunities for Developed Economies
10 (November 23)	Canada's Economic Performance in OECD Countries <ul style="list-style-type: none"> • Trends in Productivity and Standards of Living • Globalization: Key Economic Issues for Canada
11 (November 30)	Canada's Innovation Performance <ul style="list-style-type: none"> • Linkages Between Innovation and Productivity • Innovation Policy in Canada
12 (December 7)	Summary and Conclusions

MAIN REFERENCES

Required Textbook (at the Bookstore)

Krugman, P. And Obstfeld, M., *International Economics: Theory and Policy*, Pearson Addison-Westley, Boston, 8th edition, 2009. (reserved)

Other main references

Foreign Affairs and International Trade Canada, *Canada's State of Trade: Trade and Investment Update - 2009*, 2009 (<http://www.international.gc.ca/economist-economiste/performance/state-point/2009.aspx>). (reserved)

Krugman, Paul (1996) *Pop Internationalism*, MIT Press. (reserved)

Weinstein, Michael M. (editor) *Globalization: What's New?*, Council on Foreign Relation Book, Columbia University Press, New York, 2005. (reserved)

World Trade Organization, *Trade Policy Review of Canada: Report by the Secretariat*, WT/TPR/S/179, February 2007 (http://www.wto.org/english/tratop_e/tpr_e/tp280_e.htm)

ADDITIONAL REFERENCES

1. Adler, Matthew B. (2008) "Stumbling Forward on Trade: The Doha Round, Free Trade Agreements, and Canada", C.D. Howe Institute, e-brief, October 15.
2. Baldwin John R. and Wulong Gu, (2004) "Trade Liberalization: Export-Market Participation, Productivity Growth, and Innovation", *Oxford Review of Economic Policy*, Vol.20, No.3.
3. Baldwin John R. and Wulong Gu, (2009) "Productivity Performance in Canada, 1961-2008: An Update on Long-Term Trends", *Statistics Canada*, 15-206-x-No.25.
4. Beaulieu, Eugene and Herb Emery (2006) "Stay the Course or Find a New Path? Canada's Reliance on the U.S. as an Export Market", in *NAFTA@10*, John M. Curtis and Aaron Sydor eds., Foreign Affairs and International Trade Canada.
5. Boothe, Paul and Richard Roy (2008) "Business Sector Productivity in Canada: What Do we Know?", *International Productivity Monitor*, No. 16, Spring.
6. Brox, James A. And Jeremy Leonard (2009) "Shoring up the Competitive Posture of Canadian Manufacturers: What are the Policy Levers", *Institute for Research in Public Policy, Choices*, Vol. 15 No. 4, May.
7. Cimoli, Mario., G. Dosi and J.E. Stiglitz (2008) "The Future of Industrial Policies in the New Millenium: Toward a Knowledge-Centered Development Agenda", *Laboratory of Economics and Management, Scuola Superiore Sant' Anna*, Pisa.
8. Courchene, Thomas J. (2007) "The Lonie and the FTA", *Institute for Research in Public Policy, Policy Options*, October.
9. Dib, Ali (2008), "Welfare Effects of Commodity Price and Exchange Rate Volatilities in a Multi-Sector Small Open Economy Model", *Bank of Canada WP-2008-8*.
10. Dymond, Bill and Michael Hart (2008), "Navigating New Trade Routes: The Rise of Value Chains and the Challenges for Canadian Trade Policy", *C.D. Howe Institute*, No. 259, March.
11. Ebrahim-Zadeh, Chistine (2003) "Dutch Disease: Too Much Wealth Managed Unwisely", *International Monetary Fund, Finance & Development*, Vol.40, number 1, March.
12. Economidou, Claire and Antu Panini Murshid (2008) "Testing the Linkages Between Trade and Productivity Growth", *Review of Development Economics*, 12 (4).
13. Gera Surendra and Thitima Songsakul (2007) "Benchmarking Canada's Performance in the Global Competition for Mobile Talent", *Canadian Public Policy*, Vol. XXXIII-1.
14. Globerman, Steve (2008) "An Evaluation of the Canadian Investment Act and its Operations", paper prepared for the Competition Policy Review Panel, Ottawa.
15. Globerman, Steven and Daniel Shapiro (2006) "The International Mobility of Highly Educated Workers Among OECD Countries", *Industry Canada, Skills Research Initiative*, WP 2006-D-12.
16. Goldfarb, Danielle (2005) "US Bilateral Free Trade Accords: Why Canada Should be Cautious About Going the Same Route", *C.D. Howe Institute*, No.214, August.
17. Goldfarb, Danielle (2006) "Too Many Eggs in One Basket? Evaluating Canada's Need to Diversify Trade", *C.D. Howe Institute*, No.236, July.
18. Government of Canada (2008) "Compete to Win", *Final Report of the Competition Policy Review Panel*, June.
19. Greenaway, David (2004) "The Assessment: Firm-Level Adjustment to Globalization", *Oxford Review of Economic Policy*, Vol.20, No.3.
20. Guillemette, Yvan and Jack M. Mintz (2004) "A Capital Story: Exploding the Myths Around Foreign Investment in Canada", *C.D. Howe Institute*, No.201, August.

21. Harris, Richard (2006) "The Economic Impact of the Canada-U.S. FTA and NAFTA Agreements for Canada: A Review of the Evidence", in NAFTA@10, John M. Curtis and Aaron Sydor eds., Foreign Affairs and International Trade Canada.
22. Harris, Richard and Quian Cher Li (2008) "Evaluating the Contribution of Exporting to UK Productivity Growth: Some Microeconomic Evidence", *The World Economy*.
23. Hawkins, Richard (2009) "Is Canada Really All that Bad at Innovation: A tale of Two Industries", *International Productivity Monitor*, No. 18, Spring.
24. Head, Keith and John Ries (2004), "Making Canada a Destination of Choice for Internationally Mobile Resources", *Industry Canada*, DP 14, January.
25. Head, Keith and John Ries (2008) "Head Office Location: Implications for Canada", Paper prepared for the Competition Policy Review Panel, Ottawa.
26. Helleiner, Eric (2005) "Fixation with Floating: The Politics of Canada's Exchange Rate Regime", *Canadian Journal of Political Science*, 38:1, March, 23-44
27. Hervé, Karine et al. (2008) "The Macroeconomic Policy Challenges of Continued Globalization", *OECD Economic Studies*, No. 44 2008/1.
28. Industry Canada (2008) "International Mobility of Highly Skilled Workers: A Synthesis of Key Findings and Policy Implications", *Skills Research Initiative*.
29. Institute for Competitiveness and Prosperity (2008) "Flourishing in the Global Competitiveness Game", WP-11, September, Toronto.
30. Krugman, Paul (1994) "Does Third World Growth Hurt First-World Prosperity", *Harvard Business Review*, July-August.
31. Krzepkowski, Matt and Jack Mintz (2008) "Squeaky Hinges: Widening the Door to Canadian Cross-Border Investment", C.D. Howe e-brief, November 27.
32. Laidler, David (2006) "Monetary Cooperation in the North American Economy", in NAFTA@10, John M. Curtis and Aaron Sydor eds., Foreign Affairs and International Trade Canada.
33. Laidler, David (2008) "Fixing the Exchange Rate: Still a Bad Idea", C.D. Howe Institute e-brief, January 10.
34. Laidler, David and William Robson (2006) "Two Economies, One Exchange Rate: How the Bank of Canada Should React to the High Canadian Dollar", C.D. Howe Institute, e-brief, January 25.
35. MacDonald, Ryan (2007) "No Dutch Disease, it's China Syndrome", *Statistics Canada*, 11-010-XIB, *Canadian Economic Observer*, August.
36. MacDonald, Ryan (2008) "The Terms of Trade and Domestic Spending", *Statistics Canada*, 11-010-XIB, *Canadian Economic Observer*, January.
37. Masson, P., Dobson, W. And Robert Lafrance (2008) "China's Integration into the Global Financial System", *Bank of Canada Review*, Summer.
38. McFetridge, Donald G. (2008) "The Role of Sectoral Ownership Restrictions", paper prepared for the Competition Policy Review Panel, Ottawa.
39. McFetridge, Donald G. (2004) "Evaluation of Current Policy Towards Inward FDI", *Trade and Investment Conference*, Centre for Trade Policy and Law, University of Ottawa, November 19, 2004.
40. McFetridge, Donald G. (2008) "Innovation and the Productivity Problem: Any Solutions?", *Institute for Research in Public Policy*, *Choices* Vol.14-3 April.
41. Murray, John (1999) "Why Canada Needs a Flexible Exchange Rate", *Bank of Canada*, WP 99-12.
42. Nicholson, Peter (2009) "Innovation and Business Strategy: Why Canada Falls Short?", *International Productivity Monitor*, No. 18, Spring.

43. Orsenigo, Luigi and Francesco Laforgia (2008) "Developing Competitive Firms and Industries in Global Markets: An Examination of the Experience of Successful Economies", Paper prepared for the Competition Policy Review Panel, Ottawa.
44. Public Policy Forum (2008), "Implications for Canada of a High-Valued Canadian Dollar: Has the Canadian Economy Caught the Dutch Disease", Toronto Conference.
45. Robson, William (2007) "Stuck on a Spoke: Proliferating Bilateral Trade Deals are a Dangerous Game for Canada", C.D. Howe Institute, e-brief August 16.
46. Rodrik, Dany (2004) "Industrial Policy for the Twenty-First Century", Paper prepared for UNIDO, (<http://ksghome.harvard.edu/~drodrik/UNIDOSep.pdf>)
47. Rodrik, Dany (2006) "What's So Special About China's Exports", China & the World Economy, Vol.14, No.5.
48. Roy, Francine (2004) "Canada's Trade with China", Statistics Canada, 11-624-MIE, No.007.
49. Sharpe, Andrew and Ian Currie (2008) "Competitive Intensity as Driver of Innovation and Productivity Growth: A synthesis of the Literature", Centre for the Study of Living Standards, RR-2008-3, Ottawa.
50. Sharpe, Andrew and Meghna Banerjee (2008) "Assessing Canada's Ability to Compete for Foreign Direct Investment", Centre for the Study of Living Standards, RR-2008-4, Ottawa.
51. Trefler, Daniel (2004) "The Long and Short of the Canada-U.S. Free Trade Agreement, American Economic Review, 94.
52. Trefler, Daniel (2005) "Policy Response to the New Offshoring: Think Globally, Invest Locally", Paper prepared for Industry Canada's March 2005 Roundtable on Offshoring.
53. Trefler, Daniel and Elhanan Helpman (2006) "The New World Division of Labour", Paper prepared for the Conference "Offshore Outsourcing: Capitalizing on Lessons Learned", Industry Canada and the Rotman School of Management, October.
54. Winters, Alan L. (2004) "Trade Liberalisation and Economic Performance: An Overview", The Economic Journal, 114, February.
55. Zhao, John (2000) "Brain Drain and Brain Gain: The Migration of Knowledge Workers from and to Canada", Statistics Canada, Education Quarterly Review, Vol.6 No.3.

Absence from an examination or late submission of an assignment

Absence from any examination or test, or late submission of assignments due to illness, must be justified; otherwise, a penalty will be imposed. The Faculty reserves the right to accept or reject the reason offered. Reasons such as travel, employment, and misreading the examination schedule are not usually accepted.

Beware of Academic Fraud!

Academic fraud is an act committed by a student to distort the marking of assignments, tests, examinations, and other forms of academic evaluation. Academic fraud is neither accepted nor tolerated by the University. Anyone found guilty of academic fraud is liable to severe academic sanctions.

Here are a few examples of academic fraud:

- engaging in any form of plagiarism or cheating;
- presenting falsified research data;
- handing in an assignment that was not authored, in whole or in part, by the student;
- submitting the same assignment in more than one course, without the written consent of the professors concerned.

In recent years, the development of the Internet has made it much easier to identify academic plagiarism. The tools available to your professors allow them to trace the exact origin of a text on the Web, using just a few words.

In cases where students are unsure whether they are at fault, it is their responsibility to consult the University's Web site at the following address: http://www.socialsciences.uottawa.ca/eng/writing_tools.asp « *Tools for Writing Papers and Assignments* ».

Persons who have committed or attempted to commit (or have been accomplices to) academic fraud will be penalized. Here are some examples of the academic sanctions, which can be imposed:

- a grade of « F » for the assignment or course in question;
- an additional program requirement of between 3 and 30 credits;
- suspension or expulsion from the Faculty.

Last session, most of the students found guilty of fraud were given an « F » for the course and had between three and twelve credits added to their program requirement.

For more information, refer to:

http://www.uottawa.ca/academic/info/newsletter/fraud_e.html