Unit Outline*

ECON2203
Asia In the World Economy

Semester 1, 2011
Campus: Crawley

Unit Coordinator
Associate Professor M A B Siddique

Business School
www.business.uwa.edu.au

* This Unit Outline should be read in conjunction with the Business School Unit Outline
Supplement available on the Current Students web site http://www.business.uwa.edu.au/students
UNIT DESCRIPTION

Introduction

Welcome to ECON2203 Asia in the World Economy. Your lecturer is Associate Professor Dr Abu Siddique whose teaching and research interests centre around economies of developing countries, with special focus on the Asia-Pacific region. His main teaching objective is to assist his students to develop a critical mind and improve their level of understanding of the subjects that he teaches. He has taught both locally and internationally at both undergraduate and postgraduate levels over three decades. In recognition of his performance as an effective and excellent lecturer, he received UWA’s prestigious Excellence in Teaching Award Commendation in 2000 and was nominated for the Excellence in Teaching Award for the category of Postgraduate Coursework in 2007 and for the categories of Undergraduate Coursework and Programs that Enhance Learning in 2008. He has also received the Faculty Teaching Award in the category of “Citation for Outstanding Contributions to Student Learning” in 2008 and is a UWA nominee for the ALTC Awards in 2011. It is his expectation that you enjoy this unit throughout the semester.

Unit content

This unit introduces students to the role of Asian economies in the world economy. It investigates the recent growth of these economies and the reasons, both internal and external, for it. The current relationship between these economies and the rest of the world as well as regional integration are investigated. The economic relationship between the Australian and Asian economies and the economic opportunities that this provides are also examined.

The goal of the unit

This course provides an assessment of progress of Asia from an economic perspective. Students are introduced to some of the issues relating to economic growth in Asia (including transition economies) since 1960. This includes examining historical aspects of economic growth since the 1960s and the Asian economic crisis in 1997. Current issues concerning the move towards regional integration are examined. The consequences of economic development on the environment are debated and some approaches to mitigate environmental degradation are put forward. Finally, Australia’s position in Asia is viewed with reference to their trading relationship. This is essentially an applied course. That is, while formal economic models are used, most of the material covered is descriptive. The descriptive analyses are specific in nature, however. In order to explain dynamism in the region application of statistical data is employed. Students are not required to memorise data rather an understanding of the overall trend or pattern is important.

Learning outcomes

On successful completion of Asia in the World Economy (ECON2203), students should at least be able to:

- Explain the factors (internal and external) affecting economic growth in selected Asian economies. For example, investment in human capital;
- Explain the nature of and reasons for the dynamism of selected Asian economies since 1960. For example, changes in intra-regional trade;
- Critically evaluate the government’s role in the Asian region. For example, what did the government do to promote export and industrial growth;
- Demonstrate, calculate and apply concepts and theories including that of economic growth, foreign direct investment and regional integration. For example, application of the Solow Growth model and calculating the effects of capital mobility;
- Evaluate the possibility of integration of selected Asian economies. For example, what are the effects of reducing tariffs and challenges of forming a regional free trade agreement;
• Explain the impacts of economic development on the environment. For example, has economic growth in Asia contributed to environmental degradation; and
• Evaluate Australia’s position in Asia. For example, what is Australia’s current trade direction, why should Australia focus on forming trade agreements with Asian economies.

Educational principles and graduate attributes
In this unit, you will be provided with the opportunity to
• Expand an investigative mind while evaluating role of Asia in the world economy;
• Participate in group discussion in the tutorials;
• Enhance verbal and written communication skills and;
• Demonstrate self-management work independently through the completion of the prescribed weekly exercises.

TEACHING AND LEARNING RESPONSIBILITIES

Teaching and learning evaluation
You may be asked to complete two evaluations during this unit. The Student Perception of Teaching (SPOT) and the Students’ Unit Reflective Feedback (SURF). The SPOT is optional and is an evaluation of the lecturer and the unit. The SURF is completed online and is a university wide survey and deals only with the unit. You will receive an email from the SURF office inviting you to complete the SURF when it is activated. We encourage you to complete the forms as your feedback is extremely important and can be used to make changes to the unit or lecturing style when appropriate.

Attendance
Participation in class, whether it be listening to a lecture or getting involved in other activities, is an important part of the learning process. It is therefore important that you attend classes. More formally, the University regulations state that ‘to complete a course or unit students shall attend prescribed classes, lectures, seminars and tutorials’.

Students are **required** to attend one two-hour lecture and one tutorial every week.

Tutorials start in **week 3** (14 March 2011).

If you are sitting in an alternative tutorial for the week, it is your responsibility to obtain an attendance slip and give this to your own tutor in the following week. Failure to do so will mean a mark of zero for the tutorial. Please note any attendance slips submitted after the final week of semester (week 13) will not be accepted.

Students who wish to change tutorials should see the lecturer. You will not be allowed to change without a valid reason (proof is required). Students who consistently attend a tutorial for which they have not been assigned will not receive a tutorial mark for this part of the assessment.

University Holidays
There will be no classes held on Good Friday (22 April 2010).

There will be no classes held on Easter Monday (25 April 2010).

With Prosh (Wednesday 13 April 2011) no tutorials will be held until 12 noon unless it is agreed upon by all of the students enrolled in the tutorial.
CONTACT DETAILS

We strongly advise students to regularly access their student email accounts. Important information regarding the unit is often communicated by email and will not be automatically forwarded to private email addresses.

<table>
<thead>
<tr>
<th>Unit coordinator/lecturer</th>
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<tbody>
<tr>
<td><strong>Name:</strong></td>
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<td><strong>Email:</strong></td>
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<td><strong>Phone:</strong></td>
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<td><strong>Consultation hours:</strong></td>
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<tr>
<td><strong>Lecture times:</strong></td>
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<td><strong>Lecture venue:</strong></td>
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<td><strong>Tutor:</strong></td>
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TEXTBOOK(S) AND RESOURCES

Unit website

Web page for this unit can be accessed from WebCT http://webct.uwa.edu.au/. Students are advised to visit this website in order to access updated information about the unit and summaries of the lectures.

Both visual and audio recording of the lectures are available. However, I strongly recommend that you attend every lecture.

Course reader

There is no text book for this course, instead the reading for this course comprises of journal articles, chapters in books as well as discussion/working papers etc. Copies of the reader may be purchased from the UWA Co-Op Bookshop and are also available from the library website. You are expected to read relevant papers for each topic.

The content of the tutorials and lectures are generally from the course reader. However, some information is not contained in the course reader. Hence, students should rely on lecture notes.
While no questions in the mid-semester test or final exam will be asked on the specifics of each reading (e.g., statistical data, econometrics results) students should make every effort to read the allocated papers for their own knowledge as well as for tutorial discussion.

The majority of the papers are descriptive in nature and are easy to understand. However, there are some papers in which econometrics is used. Students are not required to know the econometrics. They should read the Introduction carefully and make sure they understand what the author(s) is trying to do (e.g., what hypothesis does the author want to test?). Most of these empirical papers also have discussion on the data set and methodology. It is useful to know the type of data used and the countries involved. It is not important to understand the modelling approach or the mathematical explanations. However, it is important to understand what is measured on the left-hand side of the equation (dependent variable) and what is included on the right-hand side of the equation (explanatory variables). Students do not need to memorise all econometrics results, instead try to understand the broad outcome which either disputes or confirms the author’s hypothesis.

**Reading List**

**Topic 1. Profile of Economic Growth**

**Topic 2. Theory of Growth**

**Topic 3. Trade and Industrial Policy**

**Topic 4. Foreign Direct Investment**

**Topic 5. Labour Mobility**

**Topic 6. Regional Integration**


**Topic 7. Economic Crisis and Recovery**


**Topic 8. Poverty and Income Inequality**


# UNIT SCHEDULE

<table>
<thead>
<tr>
<th>Lecture Week</th>
<th>Week Commencing Monday</th>
<th>Topic</th>
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<tbody>
<tr>
<td>1</td>
<td>28 February</td>
<td>1: Profile of Economic Growth</td>
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<tr>
<td>2</td>
<td>7 March</td>
<td>2: Theory of Growth</td>
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<tr>
<td>3</td>
<td>14 March</td>
<td>2: Theory of Growth (continued)</td>
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<td>4</td>
<td>21 March</td>
<td>3: Trade and Industrial Policy</td>
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<tr>
<td>5</td>
<td>28 March</td>
<td>4: Foreign Direct Investment</td>
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<td>6</td>
<td>4 April</td>
<td>5: Labour Mobility</td>
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<td>7</td>
<td>11 April</td>
<td>6: Regional Integration</td>
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<tr>
<td>8</td>
<td>18 April</td>
<td>Mid Semester Test: No Lecture</td>
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<td></td>
<td>25 April</td>
<td><strong>Study Break</strong></td>
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<tr>
<td>9</td>
<td>2 May</td>
<td>6: Regional Integration (continued)</td>
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<tr>
<td>10</td>
<td>9 May</td>
<td>7: Economic Crisis and Recovery</td>
</tr>
<tr>
<td>11</td>
<td>16 May</td>
<td>8: Poverty and Income Inequality</td>
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<tr>
<td>12</td>
<td>23 May</td>
<td>9: Economic Development and the Environment</td>
</tr>
<tr>
<td>13</td>
<td>30 June</td>
<td>Exam Review</td>
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</tbody>
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Note that the time allocation for each topic may be subjected to change.

### Tutorial one

**Question 1**

One of the characteristics of the Asian region is the coexistence of many heterogeneous economies in the region. Discuss this heterogeneity with regard to several socio-economic variables.

**Question 2**

It is often argued that despite their heterogeneity, the Asian “miracle” economies share some fundamental determinants of sustained economic growth in the past thirty to forty years. Discuss.

Tutorial two

Question 1
The debate surrounding economic growth in East Asia is whether it was due to factor accumulation or increases in factor productivity. What are the economic implications of women’s participation in the labour force in Asia? Answer this question in the context of the debate.

Question 2
How does education contribute to economic growth? When the government has limited budget for education, which policy is more plausible: to spend it on primary education or higher (tertiary) education?

Question 3
China has implemented a number of reforms to stabilise its domestic economy as well as open itself to the outside world. Evaluate this statement.

Question 4
Suppose after a war capital stock is not affected but the casualties reduce a country’s labour force. What is the immediate impact on total output and on output per person?

Tutorial three

Question 1
If Korea’s per capita production is represented as: \( y_t = 3 \times \sqrt{k_t} \)
- \( t \) = time
- \( k \) = capital per worker
The depreciation rate of capital for Korea is 10%, the population growth rate is 5% and the savings rate is 35%.
1. Find per capita capital, per capita output and per capita consumption of this economy in a steady state.
2. If savings increased to 45% what is the per capita capital, per capita output and per capita consumption of this economy in a steady state?
3. If the government failed to control the population growth and this rate increased to 7%. Using the new savings rate of 45% what is the per capita capital, per capita output and per capita consumption?
4. The production function changed to \( y_t = 5 \times \sqrt{k_t} \)
Repeat part (c) with the new production function.

Question 2
How is technological progress incorporated into the Solow growth model? What can Asian governments do to promote growth in total factor productivity?
Tutorial four

Question 1
Using the CPC model, analyse the interaction between trade policy and industrial development.

Question 2
Show how the CPC model explains the development of the synthetic fabrics and steel industries in Thailand and Indonesia.

Question 3
What is the flying geese model and how can it be applied to Asian economies?

Question 4
Discuss the allocation outcomes under a two-tier pricing system used by the Chinese government.
Note: Set the planned price below market equilibrium price then determine consumer and producer surpluses under planned price and benefits to consumers and producers outside the plan.

Tutorial five

Question 1
Compare and contrast the trade and industrial policies implemented by Korea and Taiwan during their industrialisation. What are the implication of the Taiwanese market structure on its industrial policy?

Question 2
What happens to output and income if control over capital mobility prevents the marginal physical product of capital from equalising between two countries (e.g., Korean, Taiwan)?

Question 3
How has FDI into China contributed to its GDP growth?

Question 4
ASEAN economies are fearful that China will attract FDI away from their economies. Is their concern justified?

Tutorial six

Question 1
Describe the neo-classical theory of labour migration. Why is it an inadequate model for explaining the movement of labour?
Question 2
Under the Lewis Model, what is the initiating factor in growth and what determines the level at which growth is maintained? Is it possible for a country to have rising wages without exhausting the excess labour supply?

Question 3
Compare the migration policies of the following countries:
a) Japan;
b) Korea and Taiwan;
c) Malaysia and Thailand; and
d) China
What type of migrants do these countries attempt to attract? What does this imply in relation to their progress along the Lewis Model?

Tutorial seven
Question 1
Suppose that the autarky price of a mobile phone is $10 in Thailand, $8 in Indonesia, and $6 in Korea. Thailand is too small to affect world prices. If Thailand initially imposes a non-discriminatory ad valorem tariff of 100% on imports of mobile phones from Indonesia and Korea, will it produce the phones domestically or import them from Indonesia or Korea?

Question 2
From Question (1)
If Thailand signs a free trade agreement with Indonesia, what is the price of imports?
Is the trade agreement that Thailand signs with Indonesia trade creating or trade diverting or neither? Carefully explain how consumer welfare in Thailand changes by signing the free trade agreement. Use a perfectly elastic supply curve.

Question 3
From Question (1)
If the initial tariff was 50% (rather than 100%), will Thailand produce the mobile phones or import them from some other country?
If Thailand signs a free trade agreement with Indonesia, is this trade creation or trade diversion? Explain.

Question 4
There are three economies, Indonesia, Malaysia and Korea. Prior to a trade agreement, Indonesia trades with Korea. Indonesia then signs a free trade agreement with Malaysia and suspends trade with Korea.
Prior to the trade agreement
Demand in Indonesia = 350 units.
Supply in Indonesia = 250 units.
Price from Korea = $100/unit.
Price from Malaysia = $110/unit.
Price from Indonesia = $130/unit.
Assume an ad valorem tariff of 30% is imposed on imports.
After a free trade agreement is formed
Demand in Indonesia = 450 units.
Supply in Indonesia = 150 units.
Compute government tariff revenue prior to the free trade agreement.
Does Indonesia gain or lose by signing a free trade agreement with Malaysia?


Question 5
What happens to output and income if control over capital mobility prevents the marginal physical product of capital from equalising between two countries (e.g., Korea, Taiwan)?

Tutorial eight

Note: Answers to the mid-semester test will be discussed during this tutorial.

Question 1
Why should Asia embrace regional integration? Discuss using examples.

Question 2
Are free trade agreements trade creation or diversion for the Asian region?

Question 3
It has been suggested that “Australia would join a free trade zone of 16 Asian and Pacific nations under a plan for a landmark East Asia economic bloc being pushed by Japan. The free trade area – stretching from Japan to China, India, Southeast Asia, Australia and New Zealand – would cover almost half of the world’s population, three billion people, with an economic output of $9trillion” (The Australian, 16/1/07).
What do you see as potential benefits and difficulties for Australia joining this trade bloc?

Tutorial nine

Question 1
Suppose you have two investment opportunities with $100. From a safe investment, you will receive $107 regardless of the state realised. From a risky investment, you receive $120 in good state and $80 from bad state. The probability that the good and bad states are realised is 0.5 respectively.
(a) How much is the expected return from the risky investment?
(b) If you are a risk-neutral investor (i.e., one who is concerned with the expected return only), which option are you going to take?
(c) If the government compensates any loss incurred by investment, how much is the expected return from each investment opportunity? Which option are you going to take? In that case, how much is the expected net return?
(d) It is known that some Asian governments either explicitly or implicitly support financial intermediaries by promising them to compensate any loss incurred from loans. How can you apply the above model to provide a reason for the recent Asian economic crisis?

Question 2
You are working at a financial institution, and it is known that there are two types of borrowers: good borrowers and bad borrowers. You do not know who is who, but you do know the probability of which type of borrower he/she is. The probability of being a good borrower or bad borrower is
0.5 respectively. The probability that a good borrower will pay back the loan is 0.9 while that of a bad borrower is 0.1.

(a) As a banker, you would like to charge a higher interest rate on the risky loan if you know who the good and bad borrowers are. However, now you are supposed to charge one interest rate only as you do not know who is who. In this case, if you are risk-neutral, how would you decide the interest rate charged on loans? Briefly discuss the expected probability that you can get your loan back.

(b) What is the expected response of good borrowers and bad borrowers if every bank in the market behaves like you?

(c) It is argued that one of the reasons for the recent economic crisis in Asia is the asymmetry of information. That is, it was difficult for banks to identify who is a good borrower, while borrowers know themselves well. How can we apply the above model to explain the insolvency of banks?

**Question 3**
Do you think the 1997 economic crisis in Asia was inevitable? Discuss.


**Question 4**
Why do some Asian countries face higher risks during the 1997 crisis than others? Discuss using examples.

**Tutorial ten**

**Question 1**
Many economists have argued that the IMF’s policy advice to countries that suffered most during the crisis (e.g., Thailand, Indonesia and Korea) did them more harm than good. In addition, the IMF was more interested in protecting the benefits of developed countries. Discuss the validity of this argument with respect to the following IMF policy advice:

(a) Tightening government budget.

(b) Liberalisation of the economy (include the financial sector).

(c) Maintaining high interest rates.

(d) Removing all the inefficient firms or banks.

**Question 2**
The following income distribution data for India (2005).

| Percentage share of household income by percentage group of households |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
| Lowest 20% | Second quintile | Third quintile | Fourth quintile | Highest 20% |
| 8.1 | 11.3 | 14.9 | 20.4 | 45.3 |


(a) Graph the Lorenz curve for India using the above data (label the axes).

(b) Explain how to find the Gini coefficient, graphically.

(c) Present at least one inequality measure.

(d) Suppose area A for India works out as 0.30. Calculate the Gini coefficient for India.
Question 3
What are the possible limitations of using the Gini coefficient as an indicator of a country’s well-being?

Question 4
Compare the strategies of traditional commercial banks against microfinance institutions. Why are the MFIs able to provide loans to the poor when commercial banks cannot?

Tutorial eleven
Question 1
Is there evidence to suggest the environmental Kuznets curve holds for Asian economies? Discuss.

Question 2
Suppose there are 20 workers on an acre of land in Indonesia. The first worker produces 19 bushels of food, with each subsequent worker on the land producing one less unit than the preceding worker (such that the second worker produces 18 bushels, third produces 17 and the 20th produces zero). The market wage is 12 bushels.

With the aid of a diagram, answer the following:
   a) If the land is privately owned, how many workers will the landowner hire?
   b) From part (a), calculate the scarcity rent collected by the landowner.
   c) If the land is commonly owned, how many workers will work on the land?
   d) From part (c), calculate the loss in social welfare, assuming all workers could be employed elsewhere producing 12 bushels of food.

Question 3
Do you think researchers are too pessimistic about environmental degradation in Asia? Discuss.

ASSESSMENT MECHANISM

The purpose of assessment

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work provides you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.

Assessment mechanism summary

The unit grade will be determined as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Due date</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Tutorial incl.:</td>
<td>10%</td>
<td>Weekly</td>
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<tr>
<td>(Attendance)</td>
<td>(5%)</td>
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<tr>
<td>(Preparation)</td>
<td>(5%)</td>
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<tr>
<td>Mid semester test</td>
<td>30%</td>
<td>Wed 20 April</td>
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<tr>
<td>Final exam</td>
<td>60%</td>
<td>TBA</td>
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<tr>
<td>Total</td>
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Note 1: Results may be subject to scaling and standardisation under faculty policy and are not necessarily the sum of the component parts.

Note 2: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning outcomes as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the unit.

Note

Students award themselves a mark out of 5 for tutorial preparation. A student who gives him/herself 5/5 is expected to have prepared (in details) all of the questions for that week. However, the tutor may change the mark students give themselves if he/she believes the mark does not truly reflect the student’s effort. Hence, a student cannot assume a self-assessed mark will be the final grade.

Time allocated for mid-semester test: 1 hour (12noon – 1pm, to be held on Wed 20 April 2011). Venues will be advised closer to the date for the test. There will be no lecture on 20 April.

Students who are unable to sit the mid-semester test on the day due to unforeseen circumstances must submit an application at the Student Centre. Consideration may be given for a deferred test or re-weighting of the assessment. The application must be lodged within 3 working days from the date of the test. Failure to do so will mean a mark of zero for this part of the assessment.

Supplementary assessment is normally not available in this unit unless a student pursuing a bachelor’s degree is currently enrolling in the unit; has obtained a mark of 45 to 49 inclusive in the unit and is the only remaining unit that the student must pass in order to complete their degree.
**Student Guild**

Phone: (+61 8) 6488 2295  
Facsimile: (+61 8) 6488 1041  
E-mail: enquiries@guild.uwa.edu.au  
Website: [http://www.guild.uwa.edu.au](http://www.guild.uwa.edu.au)

**Charter of Student Rights and Responsibilities**

The Charter of Student Rights and Responsibilities outlines the fundamental rights and responsibilities of students who undertake their education at UWA (refer [http://handbooks.uwa.edu.au/undergraduate/polproc/policies/StudentRights](http://handbooks.uwa.edu.au/undergraduate/polproc/policies/StudentRights)).

**Appeals against academic assessment**

The University provides the opportunity for students to lodge an appeal against assessment results and/or progress status (refer [http://www.secretariat.uwa.edu.au/home/policies/appeals](http://www.secretariat.uwa.edu.au/home/policies/appeals)).