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BA Economics Honours | Semester 3 | Calicut University

Foundations of Global Economics

Course Code: ECO3MN205 • Module 1

Module I: Introduction to Global Economics

Global economics investigates the economic interdependence of sovereign nations, examining international trade in goods and services, cross-border financial and investment flows, migration of labor, and the multilateral institutional governance of the global economy. In an increasingly interconnected world, understanding the historical waves of globalization, trade gains, and trade theories is foundational to economic analysis.

Unit 1: Globalization of Economic Activity: Historical Waves

Economic globalization—the integration of national markets in goods, capital, and labor—has evolved through three distinct historical waves:

- **First Wave (1870–1914):** Sparked by the Industrial Revolution, steamship navigation, transoceanic telegraph cables, and the international Gold Standard. Characterized by unprecedented mass migration from Europe to the Americas and surging commodity trade. This wave ended abruptly with the outbreak of World War I, followed by the catastrophic trade wars and protectionist beggar-thy-neighbor tariffs (Smoot-Hawley Tariff 1930) of the Great Depression.
- **Second Wave (1945–1980):** Driven by post-World War II reconstruction under the Bretton Woods institutions (GATT, IMF, World Bank). Trade liberalization lowered industrial tariffs among OECD nations, fostering specialized intra-industry trade among advanced economies while developing nations largely pursued protective import substitution.
- **Third Wave (1980–Present):** The era of *Hyperglobalization* and the ICT revolution. Developing giants (China, India, East Asia) entered global manufacturing and service supply chains. Characterized by cross-border fragmentation of production (Global Value Chains - GVCs), massive Foreign Direct Investment (FDI), and digital service exports.

Unit 2: International Trade and Living Standards

International trade elevates a nation's material standard of living through several theoretical mechanisms:

- **Expanding Consumption Possibilities:** Trade allows a nation to consume bundles of goods outside its domestic Production Possibilities Frontier (PPF).
- **Exploiting Economies of Scale:** Access to global markets enables domestic firms to expand production scale, lowering average unit costs.
- **Increased Competition and Technology Transfer:** Foreign import competition prevents domestic monopolies, while imported capital goods embody advanced foreign technology.

Classical Theories of Trade: Absolute and Comparative Advantage

- **Adam Smith's Theory of Absolute Advantage (1776):** A nation exports goods that it can produce with fewer labor hours than other nations, and imports goods where it suffers an absolute cost disadvantage. Trade is driven by absolute productivity differences.
- **David Ricardo's Theory of Comparative Advantage (1817):** Even if one nation holds an absolute advantage in producing every single commodity, mutually beneficial trade is still possible and advantageous if each nation specializes in the commodity in which it possesses a **lower relative opportunity cost**. Comparative advantage, rather than absolute advantage, governs mutually beneficial trade flows.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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Consider the structural estimation of policy impacts across decentralized economic agents. When evaluating macroeconomic interventions or microeconomic regulatory changes, parameters estimated from observational datasets must account for expectations formation and structural parameter stability in accordance with the Lucas Critique. Consequently, contemporary applied economics bridges micro-foundations with aggregate macroeconomic phenomena through dynamic stochastic general equilibrium (DSGE) modeling and micro-econometric panel estimations.

Comparative Institutional Analysis, Market Failures, and Policy Governance

Economic outcomes are fundamentally mediated by institutional architectures, legal property rights regimes, and regulatory governance. In emerging market economies such as India, market imperfections—including asymmetric information, transaction costs, infrastructural bottlenecks, and credit constraints—often necessitate nuanced policy interventions that differ substantially from textbook laissez-faire predictions.

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Market Efficiency	Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction.	Markets are prone to structural failures, information asymmetry, and coordination coordination failures.	Targeted regulatory oversight, public investment in infrastructure, and social safety nets.
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
State Intervention	State role restricted to core public goods, contract enforcement, and national defense (minimalist state).	State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution.	Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services.
Distributional Equity	Factor rewards reflect marginal productivity;	Power asymmetries, bargaining power, and	Progressive fiscal transfers, land reforms, and affirmative

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	distribution is secondary to allocative efficiency.	historical wealth accumulation shape distribution.	human capital investments.
Technological Progress	Exogenous technological shocks arriving randomly (Solow neoclassical growth model).	Endogenous technological innovation driven by R&D, human capital, and intellectual property institutions.	National Innovation Foundation, Startup India, and public digital infrastructure (India Stack / UPI).

Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

In the context of the Indian economy and sub-national development paradigms, the Kerala Model of Development provides a seminal empirical case study illustrating the complex trade-offs between social development and economic growth. Characterized by high physical quality of life indicators—including near-universal adult literacy, high life expectancy, and low infant mortality rates comparable to advanced Western economies—achieved despite historically modest per capita state domestic product, Kerala demonstrates the transformative power of public social expenditure, agrarian land reforms, and decentralized local governance (Panchayati Raj institutions).

However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

Policy formulation in dynamic economic environments must therefore synthesize foundational deductive reasoning with robust inductive empirical inquiry. Economists must continuously evaluate the balance between market incentives and regulatory governance, ensuring that institutional frameworks promote both productive efficiency and distributive social justice.

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