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BA Economics Honours | Semester 3 | Calicut University

Foundations of Global Economics

Course Code: ECO3MN205 • Module 2

Module II: International Institutions and Issues

Following the economic devastation of the Great Depression and World War II, world leaders recognized that international peace and prosperity required a rule-based multilateral economic architecture. The landmark **Bretton Woods Conference (1944)** established the institutional framework that governs global monetary stability, development finance, and international commerce.

Unit 6 & 7: Taxonomy of Post-WWII International Economic Institutions

The post-war international economic order rests on three multilateral pillars:

1. **International Monetary Fund (IMF):** Established to oversee the international monetary system, ensure exchange rate stability, and provide short-term emergency balance of payments financing to member nations experiencing balance of payments crises. The IMF created **Special Drawing Rights (SDRs)** in 1969 as an international supplementary reserve asset.
2. **World Bank Group (IBRD and IDA):** Focuses on long-term developmental financing. The International Bank for Reconstruction and Development (IBRD) finances creditworthy middle-income infrastructure, while the International Development Association (IDA) provides zero-interest concessional credits and grants to the world's poorest nations.
3. **General Agreement on Tariffs and Trade (GATT) to World Trade Organization (WTO):** The provisional GATT (1947) operated through eight successive multilateral negotiating rounds (Kennedy Round, Tokyo Round, Uruguay Round: 1986–1994). The Uruguay Round culminated in the Marrakesh Agreement, establishing the **World Trade Organization (WTO)** on 1 January 1995 as a permanent international legal organization.

Unit 8 & 9: WTO Principles and Regional Trade Blocs

The WTO multilateral trading system is governed by two fundamental non-discrimination principles:

- **Most-Favored-Nation (MFN) Rule (Article I):** Any commercial concession or tariff reduction granted to one member nation must immediately and unconditionally be extended to all other WTO member nations.
- **National Treatment Principle (Article III):** Once imported goods have cleared customs and entered the domestic market, they must be treated no less favorably than domestically produced goods regarding internal taxes, regulations, and sales rules.

Regional Economic Integration: Forms of Trade Blocs

Under Article XXIV of GATT, nations can establish preferential regional trade agreements (RTAs):

1. **Free Trade Area (FTA):** Member nations eliminate tariffs on trade among themselves, but retain independent individual tariffs against non-member nations (e.g., NAFTA / USMCA).
2. **Customs Union:** Members eliminate internal tariffs AND adopt a unified **Common External Tariff (CET)** on imports from third countries (e.g., Mercosur).
3. **Common Market:** A customs union that also allows free mobility of factors of production (labor and capital) across borders (e.g., historical European Common Market).
4. **Economic Union:** A common market with harmonized monetary and fiscal policies, often sharing a common currency and central bank (e.g., The European Union and the Eurozone).

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.

Analytical Dimension	Orthodox / Classical Perspective	Heterodox / Institutional Framework	Empirical Policy Manifestations in India
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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