Question 1.

Indicators of capital market globalization are the absolute size of the current account, The law of one price would applied to capital markets suggest that the rates of return on identical assets should be the same or almost the same. More generally an expectation of interest rate parity but with reservation that exchange rate risk (linked to differential rates of inflation) must be controlled for.

The historical pattern can focus on three periods. The first phase of globalization, from 1870 to 1914, the Interwar and Bretton Woods era and finally the second globalization period after 1973. It should be pointed out that the first and second globalization periods are similar in that current accounts are rather large(3-7 per cent of GDP) and that rate of return on identical assets and to some extent interest rates converge. The breakdown of international capital markets in the Great Depression should be mentioned but the well-read student also discusses the controls on capital mobility in the Bretton Woods which permitted central banks to pursue some independence in monetary policy which resulted in interest rate differences across nations.

The well informed student might notice that the first and second globalization periods differed in that the world before 1914 was divided into debtor (for example Scandinavia) and creditor (notably UK) nations. In the post 1973 world a great many nations are, at the same time, holding large foreign assets as well as foreign liabilities which is presumably linked to the rise of multinationals. It is also worth noting that capital mobility thrives both under fixed exchange rate (Gold Standard) and floating post 1973 exchange rate systems.

Question 2.

Inequality measures used are dispersion of GDP per head, such as the standard deviation of coefficient of variation or more elaborated measures such as the Gini-coefficient. An intuitive understanding of the Gini-concepts is sufficient. The student must be able to discriminate between three widely used dispersion measures, namely the simple un-weighted dispersion (which measures the dispersion of GDP per head giving each nation the same weight), the population weighted (which measures the GDP per head but gives each nation a weight proportional to its population size) and finally what is usually called 'global' inequality which (put simply) is the population weighted dispersion but where the domestic inequality is controlled for.

It should be pointed out that all three measures indicate a fast increase in world income inequality until 1950. From then on trends differ. Un-weighted inequality continues to increase , while population weighted falls. The student must know that the reason why population weighted inequality falls has to do with fast growth in GDP per head of populous countries such as India, Indonesia and China. The 'global' inequality does not display a clear trend since 1950, but it does not fall like the population weighted inequality does. The reason it does not fall has to do with the fact that some of the poor but fast growing nations tend to leave a substantial proportion of its population behind, that is domestic inequality increases. A well- read student might invoke the Kuznets-hypothesis in this context.

What has globalization to do with inequality trends? This final part of question 2 is to some extent an open question and a student should be judged by the power of her arguments. It is true that the post 1800 period has been a period of 'divergence of income big time', but the causal links are complicated. In the lectures we have talked about the emergence of a convergence clubs and the fact that a number of nations were late to join that club because of inappropriate institutions and poor education. It is worth noting that openness to

trade and technology helped nations to join the convergence club. The reversal of the trend towards increased inequality around 1950 is linked to technology transfer, increased trade and institutional change

Question 3.a

Mass migration is driven by economic forces. This fact is particularly observable from studies of the first era of globalization, 1850-1913, when international migration was relatively unfettered by restrictions. In the second era, post WWII , quotas and regulations makes the migration pressure less discernible. Thus, trends in the sources of migration in this era may largely reflect immigration policy.

From the point of view of the individual migrant the present value of the real wage gain plays the main role. In the first era of mass migration the migrants were young adults with little country specific capital invested, who stood to loose little from such acquired skills. The timing of the actual move is found to be closely correlated with cyclical fluctuations, that is in employment opportunities, in source and destination countries.

Consequently, the countries of emigration are characterized by a relatively lower real wage than that of the receiving countries and by a relatively young population. In addition to this, the stock of migrants from a country of emigration that has already settled in the country of destination serves to attract new migrants. This is also called the network effect. Finally, during the first era of mass migration the share of the labor force in agriculture had a weak negative effect on emigration.

In the second era of mass migration the impact of policy is to act as a filter that enhances the immigrant stock effects and mutes wage and employment effects on international migration. The answer to this question may include the topic of illegal migration. It may also touch upon the effects of quotas in the OECD countries that may encourage ‘brain drain’ from poor countries, and upon the role of remittances in the countries of origin. The two latter subjects have only been dealt with in the lectures.

Question 3.b

Mass migration has effects on the earnings and incomes not only of migrants but also on non-migrants in receiving countries. Labor becomes relatively more abundant in receiving countries and, as a result, real wages raises by a lesser amount than they would have done without migration. It is important that the student understands the wage development as a counterfactual to a situation with no immigration. Thus, the absolute wages will rarely decrease under mass migration. A particularly good example of rising absolute wages is the US in the latter half of the 19^{th} century, when capital chased labor across the Atlantic. Post WWII mass migration has not been followed by a similar capital flow.

In accordance with the Stolper-Samuelson theorem landowners, that supposedly were at the higher end of the income distribution, gained relatively in New World countries, thus making the income distribution more unequal than it would have been in the absence of labor inflow. As for the post WWII distributional effects there are signs that labor in the countries of destination is loosing out

not only relatively but in some cases even absolutely. Stagnant and declining real wages in some OECD countries may also be a result of the globalization of world trade and the keen competition by imported goods from low wage countries.