

Advanced International Economics
Economics 823
Fall Semester 2002
E. W. Nafziger
Mid-term Take-home Exam
Mon., October 28, 2002

(1) (33 1/3 points) Stanley Fischer supports a bipolar view, indicating that for developing countries open to international capital flows soft, hard pegs and clean floats are sustainable but that soft exchange rate pegs, including managed floats are not sustainable. Morris Goldstein contends that the best regime choice for developing countries is a “managed floating plus” regime. Discuss which exchange-rate system (options indicated by Fischer or by Goldstein, or some other option) is preferable for developing countries, including a discussion of policies toward international capital movement and a consideration of goals for developing countries.

[Note: instead of discussing the question generally, you can discuss the question as it applies to (a) either Asian, Middle Eastern, Latin America, *or* sub-Saharan Africa economies; (b) any one developing countries from Asia, the Middle East, Latin America, *or* sub-Saharan Africa; *or* (c) Russia, a C.I.S. country, *or* one of the ten EU accession countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) scheduled to become EU members in 2004.]

(2) (33 1/3 points) Discuss whether the US current-account deficit is sustainable? In your answer, adjust for the events that have taken place since Catherine Mann wrote her *Is the U.S. Trade Deficit Sustainable?* in 1999

(3) (33 1/3 point) Following (Part A) is an article by a critic of the International Monetary Fund, in its role in financial or debt crises in developing economies in the last decade or so. State in a summary analysis the views of Stiglitz and his allies, who are critics of what is called the “Washington (IMF-World Bank-US Treasury) Consensus” approach to international economics (see Part B for a simplified view of this Washington Consensus). In answering the question, it is more important to have excellent economic analysis and exposition of the critics than to accurately reflect Stiglitz’s precise views. After that, indicate how the IMF and its supporters would respond to critics such as Stiglitz. Finally, assess and evaluate the views of Stiglitz and allies, on the one hand, and the IMF and its allies, on the other. Discuss.

[Note: Emphasize the international economics of this debate.]

Part A (based on Joseph Stiglitz, “How I was ambushed by the IMF for daring to challenge its mistakes,” *The Times* (UK) (July 08, 2002).

Part B.

Neoclassicism's policies are reflected in the Washington consensus, a term coined by Washington's Institute of International Economics' economist John Williamson (in “Democracy and the ‘Washington Consensus,” *World Development*, August 1993, pp. 1329-36). This consensus

includes the World Bank, the IMF, and the United States government, based in Washington, D.C.,¹ and other major Bank-IMF shareholders, the high-income OECD governments, although perhaps not the OECD bureaucracy itself in Paris, France.

Following are the components of the neoclassical Washington consensus (list and comments based on E. Wayne Nafziger, *Economics of Developing Countries*, 3rd ed., 1997, pp. 110-11).

Send your paper to me as an email attachment (readable in or convertible to Word), or hand in your paper to me by 8:05 a.m., Monday, November 4, 2002, in Waters 312.

Length, method of citation, etc.: Each question should be answered in no more than (equivalent to) roughly 16 typewritten double-spaced or 8 typewritten single-spaced pages (not counting graphs and tables, which are to be limited to no more than 3-4 extra pages per question). Be sure to cite sources (see below).

Here are examples of how you should cite sources - from required readings: (Rogoff, p. 22); from other students: (Conversation with Michael Jones, October 3, 2002); from the lecture: (Lecture, October 7, 2002). For sources outside the readings, list as (Smith 1999: 36-38) for author, year, and pages in text; in the references (not to be included in the 16 double-spaced or 8 single-spaced limit), include author, title, publishing information if book (city, publishing company, year, and pages, if relevant) or journal (name of journal, volume number, date, page numbers). See the *American Economic Review* for an example as to how to cite. For material on the web, the bibliographical citation must be complete, for example, Partha Dasgupta, "The Economics of the Environment," *Proceedings of the British Academy*, Volume 90, pp. 165-221, Copyright © The British Academy, 1996, available at <http://britac3.britac.ac.uk/pubs/keynes95/06sec5.html>.

When the questions are complete, this take-home examination counts 100 points, compared 100 points for the final examination, and 100 points for your research paper. Moreover, I will raise your semester numerical score if you make an excellent contribution to class.

Feel free to hand in an earlier draft so that I can give you comments that will allow you to improve your paper (but give me a few days to respond), or ask questions about your progress at earlier stages of work on your paper.

Alternative: As an alternative you may write an original empirical or analytical work related to a major issue we have discussed in class. If you choose a topic of this sort, please discuss this with the instructor, so that we can negotiate what would be reasonable expectations, given the time constraint.

¹ John Williamson, "Democracy and the 'Washington Consensus'," *World Development* (August 1993): 1329-36; and John Williamson, ed., *The Political Economy of Policy Reform* (Washington, D.C.: Institute for International Economics, 1994), pp. 26-28.

Advanced International Economics
Economics 823
Fall Semester 2002
E. W. Nafziger
Final Take-home Exam
December 4, 2002
100 points total for 4 questions

- (1) Answer and discuss one of the following two questions (a or b): a/ What are the implications of the euro for exchange rate policies of developing countries? (you can choose a developing-country nation-state or a developing-country region instead of developing countries generally). b/ What impact will the euro have on the US, especially the use of US dollar reserves by other countries?
- (2) Indicate and discuss how changes in assumptions about international trade (such as transport costs, protection, factor intensity of various sectors and which sectors are open to trade), technological change, and migration affect the ratio of skilled to unskilled wages (the “skill premium”) in the last two to three decades or so in one country, either developed or developing. (You can use the United States or some other country.)
- (3) Does the encouragement of regional trade organizations (RTOs) under Article XXIV of GATT/WTO increase or reduce world welfare? Discuss. What are the policy implications of your analysis? Discuss.
- (4) Indicate clearly the way you would ask the major one or two questions of a student presenter (except your own presentation) on December 9 or December 11 [the question(s) can range from one sentence to several sentences]. Then answer that question.

Procedure, Citation, and Weight

The exam counts 100 points.

Send your paper to me as an email attachment (readable in or convertible to Word), or hand in your paper to me (in my mailbox, my Waters 312 office, or to a secretary in Waters 327 to give to me) by 11:50 a.m., Tuesday, December 17, 2002.

Length, method of citation, etc.: Each question should be answered in no more than (equivalent to) roughly 16 typewritten double-spaced or 8 typewritten single-spaced pages (not counting graphs and tables, which are to be limited to no more than 3-4 extra pages per question). Be sure to cite sources (see below).

Here are examples of how you should cite sources - from required readings: (Polack, p. 62); from other students: (Conversation with Michael Jones, November 18, 2002); from the lecture: (Lecture, November 13, 2001). For sources outside the readings, list as (Smith 1999: 36-38) for author, year, and pages in text; in the references (not to be included in the 16 double-spaced or 8 single-spaced limit), include author, title, publishing information if book (city, publishing company, year, and

pages, if relevant) or journal (name of journal, volume number, date, page numbers). See the *American Economic Review* for an example as to how to cite. For material on the web, the bibliographical citation must be complete, for example, Partha Dasgupta, "The Economics of the Environment," *Proceedings of the British Academy*, Volume 90, pp. 165-221, Copyright © The British Academy, 1996, available at <http://britac3.britac.ac.uk/pubs/keynes95/06sec5.html>.

Feel free to hand in an earlier draft so that I can give you comments that will allow you to improve your paper (but give me a few days to respond), or ask questions about your progress at earlier stages of work on your paper.