

Advanced International Economics
Economics 823
Fall Semester 2001
E. W. Nafziger
Mid-term Take-home Exam

(1) 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.

[Note concerning substitution allowed – Discuss what impact will the fall of the Manhattan, New York City twin towers and expectations about its effect on terrorism in the US have on the US external deficit and the euro-US dollar relation, and what effect will these have on the US internal economy. The answer will be assessed not on whether it's right or wrong but on the quality of the argument.]

(2) Discuss the nature of, the reasons for, and ways to avoid crises similar to the 1997-99 Asian (i.e., Thai, Indonesian, Malaysian, and Korean) financial crisis.

[Note concerning substitutions allowed: (a) you are allowed to choose a single country among those experiencing the Asian crisis; (b) you are allowed to substitute any of these contemporary financial crises for the Asian crisis: Latin America, sub-Saharan Africa, or one country in either one of these two groups; (c) you are allowed to substitute Russia or the former Soviet Union; or (d) with consultation of the instructor, you are allowed to substitute another region or country undergoing a recent financial crisis.]

[If you select a single country: in Asia other than the four listed; in sub-Saharan Africa, or Latin America, be sure that the selection of the country will allow you to include discussion of some of the issues included in the reading. If you are uncertain, please discuss with the instructor.]

[Financial crisis in a country you choose may be broad enough to include issues such as debt crisis or exchange-rate crisis.]

(3) In light of recent financial, exchange-rate, or debt crises in developing economies, indicate the changes you recommend in the international financial system or “architecture” (an international system can include regional arrangements). You should relate what you recommend both to the financial crisis you discuss and other recent financial crises among developing economies. Discuss.

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, October 22, 2001, 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, 2001); from the lecture: (Lecture, September 19, 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>.

Advanced International Economics
Economics 823
Fall Semester 2001
E. W. Nafziger
Final Take-home Exam
November 14, 2001
200 points

(1) What impact will the euro have on countries outside the euro bloc (especially the United States and less-developed economies) and on international forums in the next few years? Discuss.

(2) James Meade's model focuses on a combination of internal (monetary and fiscal policies and their effects on inflation, employment, and growth) and external (primarily exchange-rate policies but also policies on trade in goods and services and their effects on the current account) policies and balances in the surplus and deficit countries in a two-country world. Assume that Japan has a current-account surplus (both bilaterally with the US and overall) and the US a current-account deficit (both bilaterally with Japan and overall). Assume also that Japan's bilateral trade balance with the US is in surplus and Japan's bilateral services balance with the US is in deficit (so that the US's bilateral trade balance is in deficit and its services balances is in surplus). What internal and external policies would the US and Japan use if their sole objectives are to move the two countries closer to internal and external balance (i.e., equilibrium)? Discuss.

(3) 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 the United States (the minimum number of pages is 6 typewritten double-spaced pages).

(4) Indicate clearly the way you would ask the major one or two questions of a student presenter (except your own presentation) between November 7 and December 5 [the question(s) can range from one sentence to several sentences]. Then answer that question.

Procedure, Citation, and Weight

The exam counts two units or 200 points.

Send your paper to me as an email attachment (readable in or convertible to Word), or hand in your paper to me by 11:50 a.m., Thursday, December 14, 2001, 11:50-1:40, 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: (Bergsten, Ito, & Noland, p. 53); from other students: (Conversation with Michael Jones, November 19, 2001); from

the lecture: (Lecture, November 14, 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.