

Acronyms: CSJ: case study jurisdiction; MFI microfinance institutions, DHS Department of Homeland security; TPS temporary protected status;

Fall 2017 Final Exam Terms for Review

Adverse Selection, moral hazard, substitutes vs. complements in trade (e.g. avocados/ and chips); substitutes vs. complements in labor markets (e.g. avocados and chips); the Contras and Honduras; trading up vs. the race to the bottom in labor and environmental standards, the California Effect; the California Legal Status, Monopolistic competition and trade. Economies of scale, informal sector

USDARealAnnualExchangeRatesAugust2017Update.xlsx

Econ3235_MexicoNAFTAPovertyTraps_2017.pdf

F17 FE Short Answers Questions:

SA-1 Why are the opening scenes of the James Bond movie Spectre misleading? What was the response of the Mexican government to these misleading scenes?

SA-2 In theory high interest rates should not work due moral hazard and adverse selection problems. Why does Sofia pay 100% interest rates again and again? Compartamos interest rates are among the highest in the world, does it benefit the poor (recall Sandefur's 2015 summary of the J-PAL MFI studies?)

SA-3 Are the loans shown see on KIVA or Whole Planet real? How did Professor Roy find the picture of Felicitia? Who took the picture? Initially she thought the picture and the flyer was a scam, what changed her mind? Who actually made the loan to Felicitia?

SA-4 Is Latin America implementing the Bangladesh Consensus? Provide some evidence from the text?

SA-5 One innovative approach used to assist victims of Disaster in Latin America The DHS has announced

SA-6 List four social innovations Latin America has contributed to world development economics? How can Bangladesh legitimately claim three two of these? Which of the four can they never take credit for?

SA-7 In terms of micro-finance discuss how the two regions have moved together? How do their workhorse MFI models remain different? Are Grameen, Compartamos, MiBanco and ADOPEM now real banks? Is this good or bad? Did the Grameen Bank really fire Mohammed Yunus? Why officially? Was this charge accurate? How is it indicative of what Roy calls the private and public transcript about MFIs in Bangladesh? (and everywhere, actually...consider KIVA and Whole Planet...).

SA-8 Drawing on the CEPAL L&A text, explain how the first evaluations of Progresa (then Oportunidades now Prospera) selected households to form a control group. Why was this early evaluation important? CONAPO claims its deprivation measure was also one of the first Multi-Dimensional Poverty measures. Specifically, what characteristics were used to target Progesa payments? Do these characteristics suggest \$2 or \$4/day poverty rates?

SA-9 Reichman, 2014 argues Honduras is "dependent" on remittances because they are now almost 20% of GDP. Are remittances part of GDP or GNP? Where to they appear on

SA-10 Most Latin American countries are closer to the equator than the United States what does this imply about the impact of climate change? What does the Paris accord do for developing countries that the Rio and Copenhagen agreements did not? Why did this happen automatically for Puerto Rico (and to a lesser extent for Haiti

SA-11: How did UNDP help Haiti "build back better" after Hurricane Mathew in 2016. Draw parallels with Puerto Rico, how long did recovery take?

SA-12 Is the Roy, 1951 model sexist? How does the brains vs. brawn dichotomy manifest itself in Brazil? In Honduras?

Case Study Related Questions (perhaps not your case study, but answer any 3 anyway):

CSQ-1 Discuss the trends in poverty and vulnerability and the middle class in your case study jurisdiction.

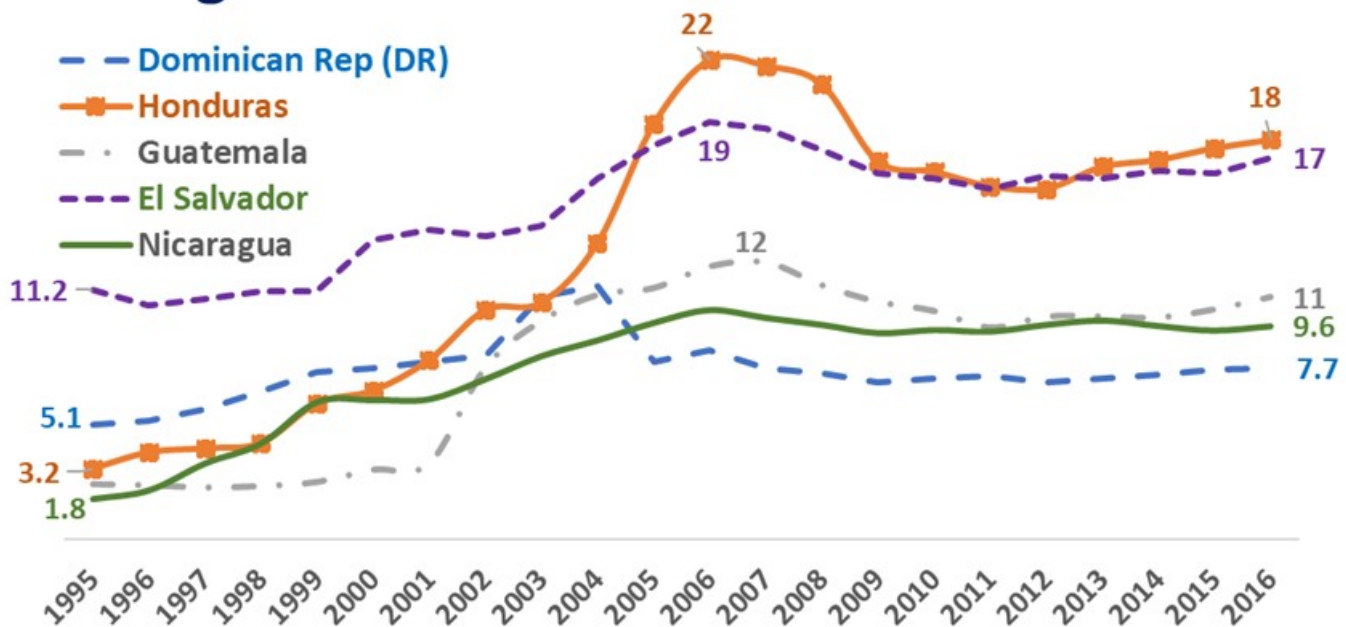
CSQ-2 The Telegraph Honduras InfoGraphic says Honduras' GNI is \$2000, what does this data overlook (hint: why do we use \$2011 PPP estimates for Honduras?). What basic characteristic of development related to the structural transformation does this effect illustrate (hint: Sachs and Larraine,

CSQ-3 Where do the Northern Triangle gang names 18th Street and MS-13 come from? Where did gang members learn to get really scary tatoos? The movie in what sense did the United States create the gang culture in Central America? (hint: Mariel Boat lift)

CSQ-4 Sin Nombre has a sad but true to life ending... who makes it to the U.S.? Where she from? He is killed crossing the river (by who?). She makes it by calling a number on a piece of paper, why is there no name on the piece of paper? How is her migration indicative of the Roy model prediction regarding who will go to school and who will migrate from rural areas as incomes rise? Does our hero who sacrificed his life to save on Honduran refugee have tatoos on his face? Why not?

CSQ-4 We applied this model to Brazil as well... what happened in Brazil?

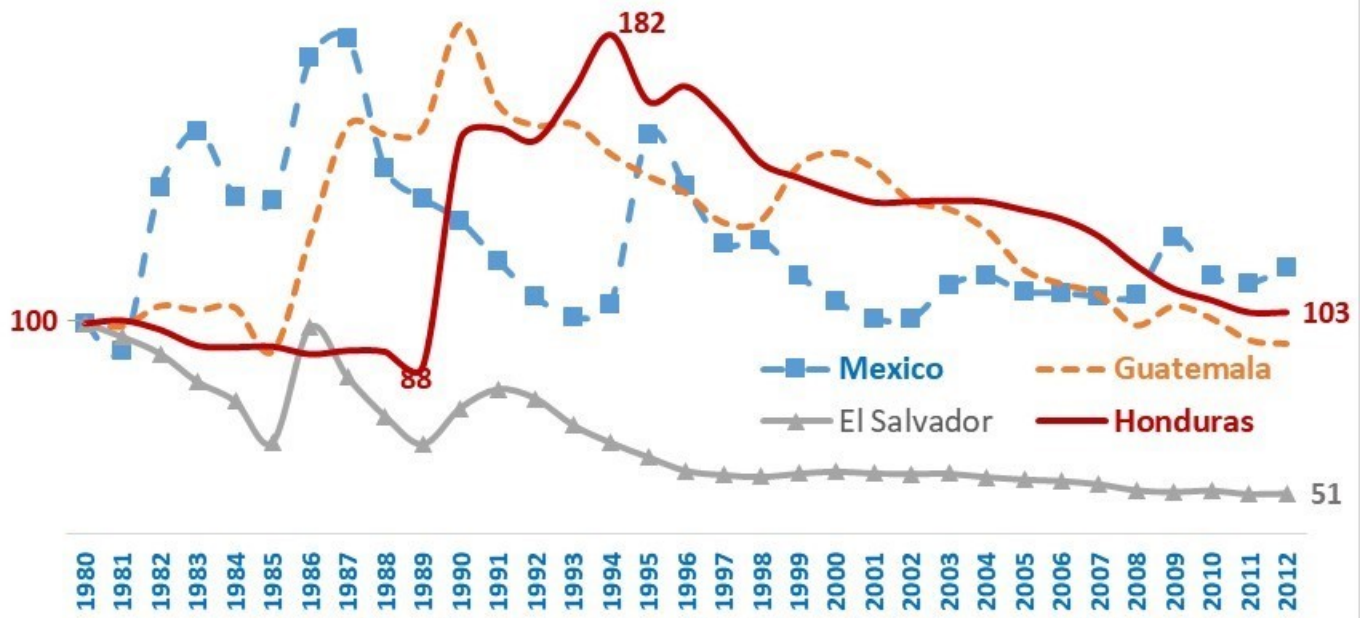
Figure R-7 CAFTA-DR Remittances



Source: World Bank, WDI interactive graphic

Figure R-3: Real Exchange Rate for CAFTA-NAFTA Countries

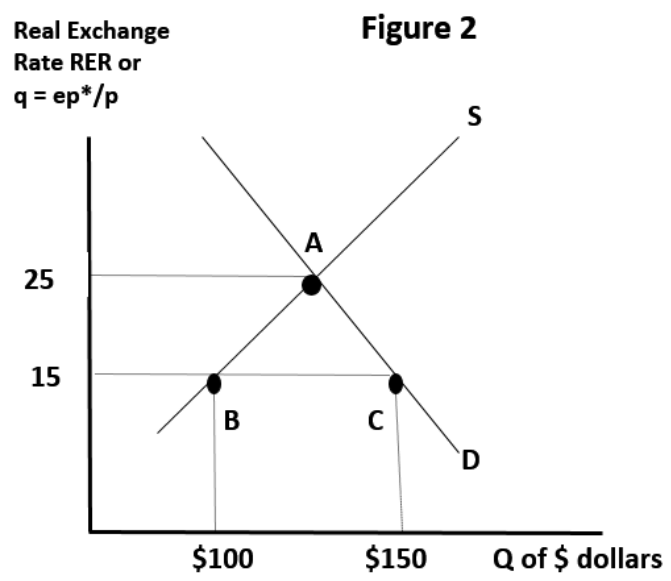
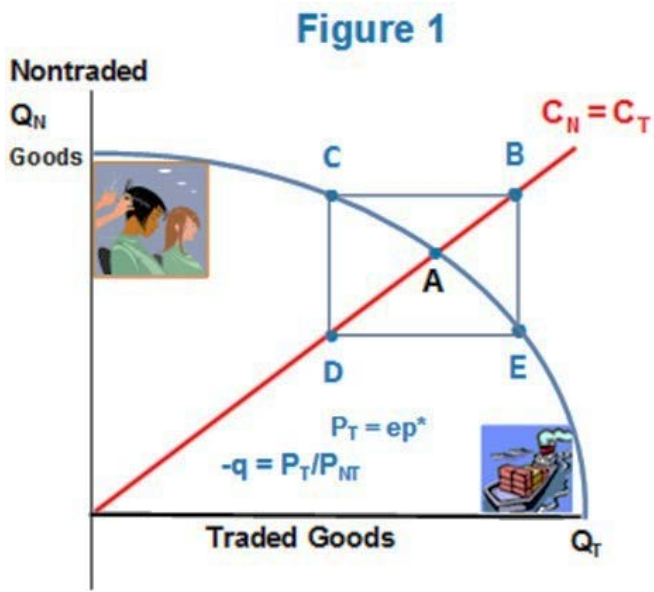
Source: USDA 8-29-2017 1980 = 100



Source: USDA ERS Annual Real Exchange Rates, 8-29-2017 update, Karl Heerman, 202 694-5250

The midterm and the final will focus on Latin American policy innovations. The final exam will focus on some microeconomic and public policy innovations, The midterm will focus on some macroeconomic innovations. These include “nominal anchor” strategies for ending hyperinflation (not just “shock treatment”) and commodity price based fiscal rules (for dealing with the Dutch Disease). Micro innovations include conditional cash transfers, carbon credits; and social entrepreneur or profit making microfinance. Mohammed Yunus developed and tested subsidized microfinance in Asia (Bangladesh), but Accion and later Compartamos pioneered privately financed microcredit (leading to some controversy). Hernando de Soto Polar, a Peruvian economist who focused on informality as an obstacle to capitalist development. In part the world bank’s doing business indicators were inspired by his research. Procampo and Progressa were Mexican CCTs designed to temper the impact of NAFTA on the rural poor. Compartamos was conceived as a response to the 1985 Mexico Earthquake.

Lecture notes for review: [Ending Inflation](#) [Stabilization Policy Handout](#) [Tables from Calvo and Vegh, 1994](#)



- Using Figure 2, what is the current account deficit? If the price of the peso is 15 per dollar, the demand exceeds the supply of dollars in this economy. Will this naturally lead to a depreciation of the peso from 15 to 25 per dollar? Why or why not (explain)? Suppose capital inflows to Mexico suddenly stop. Why is external devaluation considered a “beggar thy neighbor” policy whereas internal devaluation is not? How are other countries (in the Pacific Alliance for example) like to react to an “external” peso devaluation. Why is internal devaluation Puerto Rico’s only option (or Ecuador or El Salvador’s). Show how stabilization or “austerity” might end Mexico’s CA deficit. Though more painful for Mexico, this would be considered a good neighbor policy, less likely to lead to “contagion” than external devaluation (the IMF was put on earth to end this sort of competitive devaluation).
- Through the 1990s, flexible exchange rates in the Americas were considered an inflation risk. What has happened to the last decade to change this perception. Now too low inflation (deflation) is considered a problem (in the U.S. yesterday for example). Moderate inflation (2% or more) is considered prudent and advantageous throughout the Americas, why? What is secular stagnation? Why does the U.S. have to worry about SS, where Latin America does not (at least not right now...)
- Referring to the Figure 1, production and consumption at point implies balanced trade with full employment while consumption production at B implies a trade deficit of minus and a (weaker/stronger) RER than production and consumption at point A. Capital inflows (borrowing) are one way to consume at point B, what are some other ways? The Belassa-Samuelson effect takes most countries toward point B
- Suppose a country gives up its currency (dollarizing for good). Why is it more likely to wind up at D than E? How would we recognize a country at D (for example Puerto Rico, Greece or Argentina in 2000...).

5. Most Latin American countries have, or would like to have managed flexible exchange rates, why (hint: Latin America is not an optimal currency area...though neither is the United States + PR). Why does the USA have a single currency while the NAFTA countries do not? That said almost all Latin American countries found it useful to fix their exchange rate to end high inflation (for good we hope). Did all of these inflation reduction or stabilization programs involve austerity and sharp deep recessions, as with the “orthodox” programs of Chile and Bolivia during the 1980s? The ABC countries all used Tablitas, why did these “managed expectations” work better in Argentina, Peru and Brazil than in Bolivia and Chile for example? Argentina’s currency board ended high inflation during the early 1990s but then became a ball and chain during the late 1990s? How did ending inflation in inflation prone Southern Cone countries turn out to be easier than many expected (for example the Chicago boys). What “Tablita” lessons has our own Federal Reserve Bank (Janet Yellen yesterday) and other OECD Central banks learned and applied with some success (starting in New Zealand really).
6. Overall, free trade agreements in Latin America have been disappointing, why? An exception might be the Pacific Alliance (PA) and to a lesser extent NAFTA and related agreements (CAFTA-DR, Colombia & Chile FTA). Why do some have high hopes for the Pacific Alliance? Why are some CAFTA and MERCOSUR members thinking of joining the PA? What countries are these. What does the PA have in common with the now dormant TPP? Why does this matter (hint: Chile and Mexico). How have some women benefitted from Colombia’s free trade agreement (making Jockey women’s shirts
7. Use T-shirts as an example of a value chain, use the planet money cotton shirts as an example. Starting with cotton who makes the machines that make the cotton yarn? Why are there so few workers involved in these processes? Where is the cotton produced, where is the yarn made, why are these made in different countries? Who sews the shirts? Why are they in different countries? Why do mainly women sew the shirts (see the pictures)? Why is it the cotton so cheap? Why is the shipping so cheap? Who gets the largest share of shirt value added, compare this to the Iphone, for example. The Iphone has a smiley curve, do T-shirts? Why or why not?
8. Writing in 2010, Sebastian Edwards was very optimistic about Social Democratic Chile and Brazil but very pessimistic about Left populist regimes Argentina, Bolivia, Ecuador and Venezuela. Which two countries have done better and which have done worse than expected, among LP countries and among the SD countries? Which left leaning countries have swung back toward the center? Which right leaning countries have swung toward the center? Which countries are led by same left wing guerrilla that fought against U.S. supported regimes during the cold war (hint: FMLN). Why is this an important achievement for a democracy? Compare Colombia for example with the lustration policies that deeply scarred Iraq, Sri Lanka and now perhaps the Ukraine.
9. Suppose a mainly on commodity exporter decides there is a long run price for its special export product, but that there will also be periods of low prices and high prices (which may last many years...). Draw the PPFs associated with low prices and high prices (P_H and P_L). Suppose this country sets up a special government social-investment fund in London or New York, adding to it when prices are high and drawing it down when prices are low. Where would this country choose to consume? Why might its private sector (business and consumers) appreciate this policy? Why would Frenkel and Vegh say this country has “graduated”. *EC What country is this?*
10. Use Figure 1 to illustrate the Dutch Disease (DD). Is the DD really a disease from an economics point of view? In what respect is it similar to the Belassa Samuelson (BS) effect? Why is the DD bad and the BS effect good, even though they may look similar? How do governments and international investors make the DD worse? If you are vulnerable to the DD, it is better to have a flexible as opposed to a fixed exchange rate: why? Venezuela appears to have very severe DD strain identified by [Collier and Goderis \(2007\)](#). In what sense is a Universal Basic Income (as in Alaska) an inoculation against the severe DD strain (see Devarajan et. al. 2011).
11. One way the U.S. has dealt with wars and natural disasters in LatAm is to grant workers from that country TPS. How does this help families in the home country? Why is this also in the interest of the U.S. Is this approach better than dollar aid to emergency assistance? Think of Haiti after the earthquake for example.

12. Disappointing reforms? The Washington Consensus a “damaged brand”? see pages 16-18 in Birdsall et al. and Pinara’s recent talk at the Wilson Center. Write out the 10 Washington Consensus Check list by area. Which are now questioned by some? Which have largely become conventional wisdom, outside Venezuela and perhaps Nicaragua?

References:

Calvo, Guillermo A., and Carlos A. Végh. "Inflation stabilization and nominal anchors." *Contemporary Economic Policy* 12, no. 2 (1994): 35-45.

Cardoso, Eliana and Ann Helwege (1995) *Latin America’s Economy: Diversity, Trends and Conflicts*, MIT Press (paper, see especially chapter 6)

Devarajan, Shantayanan, Gael Raballand, and Tuan Minh Le (2011) "Direct Redistribution, Taxation, and Accountability in [Oil-Rich Economies: A Proposal](#)." Center for Global Development, Wash DC.

Nancy Birdsall , Augusto de la Torre and Felipe Valencia Caicedo (2010) The [Washington Consensus](#): Assessing a Damaged Brand - Working Paper 213 June 4th