Please turn in your essays on BB, see BB and for due dates… You can use hand-drawn or the excel/word based diagrams (here are the templates in excel, some like to use word). If you copy diagrams from excel, be sure to use paste special "jpeg" at some point. If you draw in diagrams hand and take a picture and email it to yourself, increasing the contrast (so it is not too dark) use electronic pictures and equations—remind me to post word versions of handouts and spreadsheets with diagrams (Figure 1, etc.. Another option is to use turboscan or a copier to scan your test in as a pdf (we can do this at Fordham, if you are on campus). ***Please note each essay is turned in separately and has its own due date on BB.*** *Use this word file adding your answer in a different single-spaced type face. Keep answers brief and to the point, please clearly label and refer to points in diagrams. Sections in italics are optional. Check the course calendar & Blackboard for due dates and possible revisions or corrections. Let me know by email if you cannot find readings or links to not work..*

M-1 **Managing Aid surges:** M1-A**) Coping with capital inflows:** use the curved TNT diagram such as Figure 1 to show how private capital or Aid inflows always lead to a real exchange rate appreciation. Briefly relate this to idea of "absorbing" aid inflows (who is helped and who is hurt by aid inflows). Discuss why Uganda and Italy (post WWII) were reluctant to absorb aid inflows. M1-B) Why is the IMF and Donors (and the Economist) always worry if aid is not spent and/or absorbed (write out the capital account using one of the IMF papers or the Aid handout especially Gupta et al. 2006). M1-C) Countries with a flexible exchange rates have some control over how this appreciation takes place. Using the nominal exchange rate e (pesos/rand/cedis per $) and price level eq. from S&L Chapt 21 pag 673 to explain the potential inflationary impact of capital inflows. How does changing e temper inflation pressures during a commodity price boom for example (see Nigeria for example during the oil boom…Saludos was head of the Central Bank and came to visit Fordham on his way back from the IMF meetings in 2008…). M1-D) A more elaborate approach is to combine a Sovereign wealth fund with fiscal rule as Chile has done. Show how the Chilean fiscal rule works using the MFD and the TNT diagram. Use the TNT and the market for dollars diagram to show how Chile's copper stabilization fund smooths consumption and investment. Simulate a rise/fall in copper prices as a shift in the supply of dollars curve, or as a shift in the PPF that mainly affects traded goods Why avoid RER adjustment? What does the TNT diagram promise countries if they can get the RER "right"? M1-E) Suppose productivity increases faster in the tradables sector. How does this affect the real exchange rate? Use equation 21.6 to page 662 show exactly how this productivity effect works when aN rises more slowly the AT. Should the government attempt to prevent this appreciation? Why not? This is referred to as the Belassa Samuelson effect. How does it affect real exchange rates over time? Use the Sustainable debt handout to show a secular appreciation reduces the costs of borrowing in dollars or Euros over time (sometimes referred to as "original sin") M1-F) The third arrow of Abe Economics is reforms to encourage investment and productivity growth (Germany's Hartz reforms are an example). Use the TNT model to argue that countries that wish to temper the impacts of Aid inflows on inflation and RER should increase productivity in _____ goods while countries seeking to avoid deflation associated with capital outflows should focus on increasing productivity in _____goods. Explain this intuitively and using the TNT diagram if possible. EC) What does the IMF WEO Chapter 3 Oct 2017 find is the best insurance against climate shocks for developing countries? Why does this make sense in light of the above?

M-2 Dollarization to end hyperinflation? Venezuela is the most acute case of hyperinflation and dual exchange rates. Is Venezuela's experiencing hyperinflation A) what can Venezuela learn from the experience of Greece, Argentina, El Salvador and Denmark. B) Argentina defaulted on its external (and internal) debt, Greece basically stopped paying interest on its debt why doesn't Venezuela default or stop paying interest on its external debt? C) If Venezuela and Puerto Rico were at about the same level of per capita income in 1967 (Venezuela was richer that Puerto Rico) now Puerto Rico is almost double that of any Latin American country (Chile is as 35% or U.S. income, Puerto Rico is at about 60% (the WEO classifies PR as a high-income country). Does Puerto Rico show Venezuela its dollarized future? D) Zimbabwe had hyperinflation and had

recently tried to restore its own currency: how is it doing? What is the common denominator shared by these two countries, which ended last month for Zimbabwe and may end in March for Venezuela.

M-3 Case study related question (due after Spring break) A) Use the Ending Austerity handout (updated) to discuss whether your country has "graduated" in any of the 3-4 meanings of this term with respect to classification ad Least Developed or ODA eligible country, in terms of fiscal and monetary policy and/or in terms of ability to borrow externally. What helps countries graduate and cope B) Did your country have HIPC or private debt relief, if yes did lead to an increase in social spending? C) If your country had graduated, has this helped or hurt overall economic growth and/or inflation and exchange rate stability?

Frankel, Jeffrey A. & Vegh, Carlos A. & Vuletin, Guillermo, 2013. "On graduation from fiscal procyclicality," Journal of Development Economics, Elsevier, vol. 100(1), pages 32-47

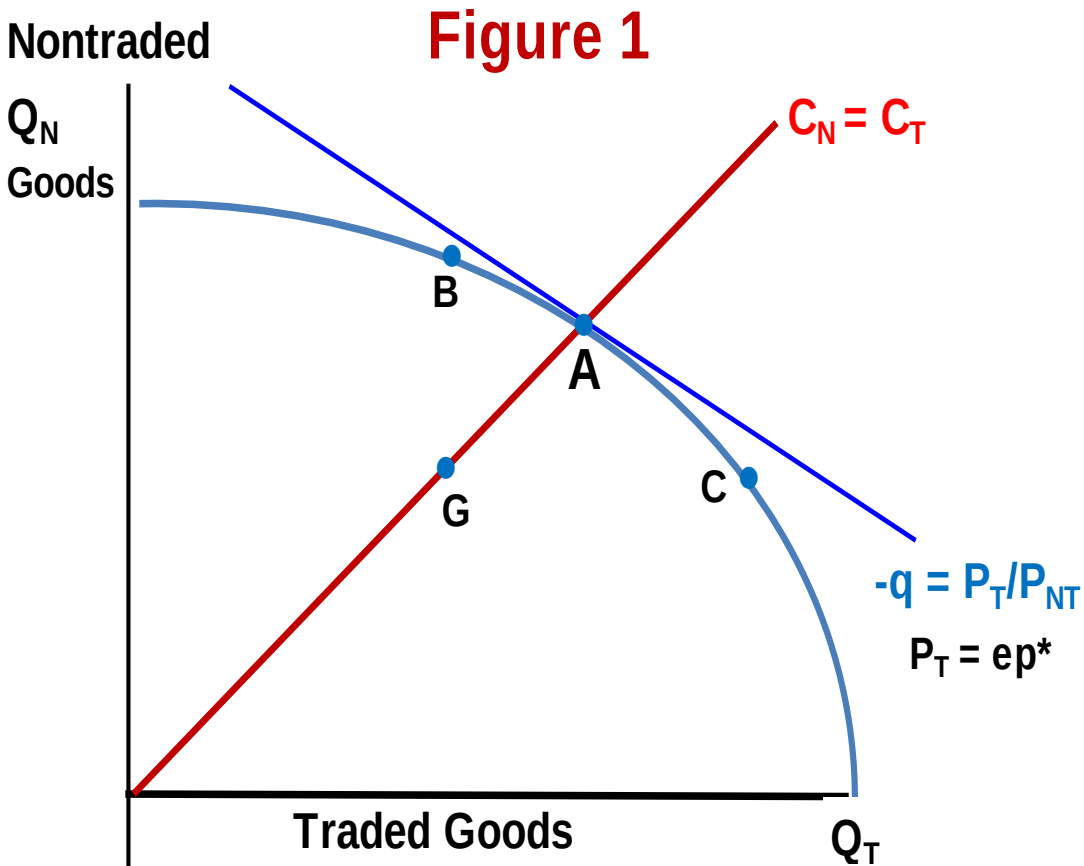
Gupta, Sanjeev, Robert Powell, & Yongzheng Yang (2005) "The Macroeconomic Challenges of Scaling Up Aid to Africa." IMF WP/05/179 September. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.529.3115&rep=rep1&type=pdf

Gupta, Sanjeev, Robert Powell, and Yongzheng Yang (2006) *Macroeconomic challenges of scaling up aid to Africa: A checklist for practitioners*. International Monetary Fund, 2006.

http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.604.132&rep=rep1&type=pdf

Berg, Andrew, Jan Gottschalk, Rafael Portillo, and Luis-Felipe Zanna. "The Macroeconomics of Medium-Term Aid Scaling-Up Scenarios." (2010). http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.296.3929&rep=rep1&type=pdf

Vegh, Carlos A., and Guillermo Vuletin. "Overcoming the fear of free falling: Monetary policy graduation in emerging markets." In The Role of Central Banks in Financial Stability: How Has It Changed?, pp. 105-129. 2014. NBER paper 2012



ODA Recipients (Least Developed Countries)

http://www.oecd.org/development/financing-sustainable-development/development-finance-standards/daclist.htm

http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2014to2017_flows_En.pdf

http://www.oecd.org/development/financing-sustainable-development/development-finance-standards/daclist.htm

For an interactive chart of ODA as a % of GNI add your country 2 letter ISO code to this url (you can change the start date too). Perhaps eliminate MZ and RW whose huge spikes in Aid

https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?end=2016&locations=MZ-AF-BF-CD-GH-BI-HN-ET-RW-BW-ID&start=1973

https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?end=2016&locations=AF-BF-GH-BI-HN-ET-BW-ID&start=1960

https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?end=2016&locations=BF-GH-HN-ET-BW-ID-CO&start=1960

https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?end=2016&locations=BF-GH-HN-ET-BW-ID-CO-BO-SN&start=1969

https://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS?end=2016&locations=BF-GH-HN-ET-ID-CO-BO-SN&start=1970

The Macroeconomics of Scaling up Aid: Jones, E. Samuel, and Channing Arndt. "Aid, Revenue and Fiscal Space: Considerations for Least Developed Countries with Application to Mozambique." In Paper for the 2007 Nordic Conference in Development Economics, June, pp. 18-19. 2007.

Gupta, Sanjeev, Robert Powell, & Yongzheng Yang (2005) "The Macroeconomic Challenges of Scaling Up Aid to Africa." IMF WP/05/179 September. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.529.3115&rep=rep1&type=pdf

Gupta, Sanjeev, Robert Powell, and Yongzheng Yang (2006) *Macroeconomic challenges of scaling up aid to Africa: A checklist for practitioners*. International Monetary Fund, 2006.

http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.604.132&rep=rep1&type=pdf

Berg, Andrew, Jan Gottschalk, Rafael Portillo, and Luis-Felipe Zanna. "The Macroeconomics of Medium-Term Aid Scaling-Up Scenarios." (2010). http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.296.3929&rep=rep1&type=pdf

http://www.imf.org/external/pubs/ft/fandd/2005/09/aiyar.htm

The Road to Redemption: Policy Response to Crises in Latin America

Yang, Yongzheng, Robert Powell, and Sanjeev Gupta. Macroeconomic challenges of scaling up aid to Africa: A checklist for practitioners. International Monetary Fund, 2006.

Galiani, Sebastian, Stephen Knack, Lixin Colin Xu, and Ben Zou. "The effect of aid on growth: Evidence from a quasi-experiment." Journal of Economic Growth 22, no. 1 (2017): 1-33.

https://www.imf.org/external/pubs/ft/afr/aid/2006/eng/aid.pdf

https://www.odi.org/sites/odi.org.uk/files/odi-assets/events-presentations/134.pdf

Exchange rate regimes (sterilization)

See Barry Ickes for this quote *http://class.povertylectures.com/forex1BarryIckes.pdf*

Friedman on Flexible Rates: If internal prices were as flexible as exchange rates, it would make little economic difference whether adjustments were brought about by changes in exchange rates or by equivalent changes in internal prices. • The argument for flexible exchange rates is, strange to say, very nearly identical with the argument for daylight savings time. Isn't it absurd to change the clock in summer when exactly the same result could be achieved by having each individual change his habits? All that is required is that everyone decide to come to his office an hour earlier, have lunch an hour earlier, etc. But obviously it is much simpler to change the clock that guides all than to have each individual separately change his pattern of reaction to the clock, even though all want to do so. The situation is exactly the same in the exchange market. It is far simpler to allow one price to change, namely, the price of foreign exchange, than to rely upon changes in the multitude of prices that together constitute the internal price structure.

Post-conflict Aid, Real Exchange Rate Adjustment, and Catch-up Growth Ibrahim ElbadawiLinda KaltaniKlaus Schmidt-Hebbel January 1, 2007 World Bank Publications

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