

Term Paper Assignment

The term paper assignment requires the submission of a 15-page paper, due by 5PM, Friday, May 9, in my mailbox, or (preferably) electronically (in PDF, or if necessary Word). You can choose among three different topics discussed below, or you may select an alternative if there is a specific area of international macroeconomics that you wish to investigate further. However, the risk of choosing an alternative topic is that you will not have the benefit of the explicit guidelines and suggestions that I outline below.

It might be helpful in structuring this paper to pretend that you are a senior staff member at the U.S. Treasury Department, and you are writing this as a memo to the Assistant Secretary of Treasury for International Affairs to give him/her background on one of the topics outlined below.

The memo should be structured as follows:

1. Brief introduction and current situation
2. Analysis
3. Policy options (with analysis of likely outcomes) and recommendations

The memo should also incorporate informational graphs (with data) and tables **if useful**. Analytical graphs (such as supply and demand figures) are not typically used in memos.

Since it is not usually standard practice to “cut and paste” tables and graphs from other documents into official memos, you should strive to generate your own graphs and tables. Data sources are located on the course website, as well as on campus (Data and Information Services Center in the Social Sciences Building).

In addition, follow the usually conventions: include page numbers, label sources for tables and graphs, and list references.

You should feel free to consult certain weblogs (Econbrowser, *WSJ* RealTime Economics, CBO Blog, Greg Mankiw’s blog), to get ideas and links to documents, **but do not cite weblog posts as references**. Also, do not cite lecture notes.

The evaluation of the paper will be based upon the following:

1. How well is the paper organized, and how clear it is in terms of exposition.
2. How well the situation is summarized (including the use of statistics and graphs).
3. How well models are used to analyze the situation.
4. How well your policy recommendations fit in with the analysis you present.

Topic 1: The Current Macroeconomic Outlook and Coordinating Macro Policies

Recently, there has been concern about the possibility that the U.S. economy will enter into a recession, and that further, the world economy will experience a slowdown. Discuss the options that face U.S. policymakers, in terms of fiscal, monetary and other policies.

The paper should address the following questions:

1. Why are the U.S. and world economies slowing down? And what is the likely extent of the slowdown?

2. What are the policy options available?
3. Should the U.S. seek to coordinate policies with foreign governments; and if so, which governments? Be sure to discuss the likelihood of success, in terms of which governments are likely to cooperate.
4. Be sure to address the implications of your policy recommendations for output, unemployment as well as inflation and the trade balance.

Since we have not formally analyzed the workings of the financial system (in particular the banking system), you may omit discussion of measures to stabilize the financial system.

There are many sources for this topic. I suggest you consult the links on the course website. In addition, there are materials on the IMF, the Federal Reserve Board (and the Federal Reserve Banks), the OECD and CBO websites, among others.

Topic 2: Yuan “Misalignment”

The Chinese exchange rate (called the “yuan”, or sometimes the “Renminbi”) has been a contentious issue over the past several years, especially against the context of a wide bilateral trade deficit.

In your memo, you should discuss the following issues:

1. The effect of the current value, and trajectory, of the *Yuan* on the US and world economies.
2. The theoretical arguments for changes to the Chinese exchange rate regime, including accelerated revaluation and/or allowing a free float.
3. The implications for the US economy of such changes. Will a more rapid change in the bilateral exchange rate necessarily change the overall US trade deficit? Will the dollar necessarily weaken against the yuan if China goes on a free float?
4. The possible consequences for the Chinese economy, and the other economies in the region (Japan, Korea, Thailand).
5. The ability of the U.S. government to influence the Chinese government’s stance on this issue.

Some readings for this are to be found on the following website:

<http://www.ssc.wisc.edu/~mchinn/RMB.html>

See also the sections in the 2004 and 2006 *Economic Report of the President* on this topic.

Topic 3: The IMF and Emerging Market Crises

(Note: This is a difficult topic, which will require you to read – and cover -- lots of material. On the other hand, the memo will be somewhat less quantitative in nature, due to the topic.) The emerging market crises, including the East Asian crises of 1997-98, the Russian Crisis of 1998, and the Argentine experience, have provoked a lot of thought and research. Here I want you to focus on what we have learned from these crises about the role of the IMF:

Was the response by the International Monetary Fund appropriate? What lessons can the IMF learn for how to respond to crises in the future? Is there a case for diminishing the role of the IMF and building some sort of new international financial architecture to deal with crises?

Your main readings for this paper should be Chapter 24 of our textbook as well as Blustein, Paul, 2001, *The Chastening* (Public Affairs) as well as his 2005 *And the Money Kept Rolling In (and Out): Wall Street, the IMF, and the Bankrupting of Argentina* (Public Affairs).

Your paper should try to address these questions:

1. How was the IMF response to the crises in Korea, Russia, and Argentina different in each case? How did the IMF adjust its policy recommendations as it learned from its mistakes?
2. What policies were most successful? What policies were successful but at a high cost? What policies were unsuccessful?
3. How might the crisis have played out if there were no IMF or global financial institution? Would there even have been a crisis?
4. Within its existing framework, what could the IMF do better?
5. Are any of these concerns relevant in an era when *most* emerging market economies possess very large foreign exchange reserves, and are running balance of payments *surpluses*?

Here are some suggestions for further reading:

- “IMF-Supported Programs in Indonesia, Korea and Thailand,” *IMF Occasional Paper No. 178* (1999).
- Kenneth Kletzer, 2004, “Resolving Sovereign Debt Crises with Collective Action Clauses,” *FRBSF Economic Letter* 2004-06 (February 20).
- Stiglitz, Joseph E., 2002, *Globalization and Its Discontents*, (W.W. Norton).

More exhaustive analyses:

- Roubini, Nouriel and Brad Setser, *Bailouts or Bail-ins? Responding to Financial Crises in Emerging Economies* (Washington, DC: Institute for International Economics, 2004).
- Peter Isard, *Globalization and the International Financial System: What’s Wrong and What Can Be Done* (Cambridge, Cambridge University Press, 2005).
- Reports of the Independent Evaluation Office of the IMF:
<http://www.imf.org/external/np/ieo/index.htm> .