Term Paper Assignment

The term paper assignment requires the submission of a 15-page paper, due by 5PM, Monday, May 10, in my mailbox, or slipped under my office door at 7418 Social Sciences Building. 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 Undersecretary of Treasury for Monetary Affairs to give him background on either of the topics below.

**Topic 1: US Macroeconomic Adjustment**

Many have argued that in recent years, the trade deficit is “too large”, and that part of the reason for this large trade deficit has been an “overvalued” dollar. This means the price of foreign currency is too low.

This paper should address the following questions:

1. What are the implications of chronic trade deficits? How is this question linked to the issue of “sustainability”?

2. Is the dollar still overvalued? What does it mean for the dollar to be “overvalued”? That is, why would policy-makers desire an exchange rate that is different than the existing one?

3. Depending upon the answer to (2), should policy be used to attempt to lower the value of the dollar (raise the exchange rate)?

4. Should monetary policy be devoted toward that task, or should it be attempted through “sterilized intervention”?

5. What are the implications for the rest of the world’s major economies, most importantly the Euro area and Japan? What will be the effect upon the less developed countries?

In addition to our textbook, the readings in the following text should provide you with all the information you need. A warning, though: this is somewhat difficult material.

In thinking about “overvaluation”, you might find it helpful to look at this essay.


**Topic 2: RMB “Misalignment”**

The exchange rate of the RMB 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 of the Renminbi (RMB) on the US and world economy.

2. The theoretical arguments for changes to the Chinese exchange rate regime, including revaluation and allowing a free float.

3. The implications for the US economy. Will a change in a bilateral exchange rate necessarily change an overall trade deficit?

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.

Your main readings for this are to be found on the following website: http://www.ssc.wisc.edu/~mchinn/RMB.html

See also the section in the 2004 *Economic Report of the President* on this topic.

**Topic 3: The IMF and the Asian Crisis**

The Asian crisis of 1997-1998 has provoked a lot of thought and research. Here I want you to focus on what we have learned from the Asian crisis 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 15 of our textbook and Bluestein, Paul, 2001, The Chastening (Public Affairs).

(Incidentally, this is an easier and more entertaining read than the Bergsten book assigned for Topic 1.)
Your paper should try to address these questions:

1. How was the IMF response to the crises in Thailand, Korea, Russia, and Brazil 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. There is currently a major proposal to introduce an international bankruptcy court. It would treat “country bankruptcy” much the same as traditional bankruptcy courts treat individual bankruptcies (i.e., it would set up schedules for repaying debtors, reduce the total debt of the country, enforce some rules for a “restructured” economy.) What are the potential benefits of such a court? What are the potential dangers? Could this institution replace the IMF entirely?

Here are some suggestions for further reading: