Exam 3

Use your time wisely. I am looking for short and precise answers.

(I) Debt/Inflation

(1) (6 pts) Briefly explain the role of the world interest rate in the build up of Latin American countries debt and the subsequent debt crisis.

(2) (6 pts) Explain why a partial buy back of a country’s debt benefits the banks holding such debt.

(3) (6 pts) Explain the links between government deficit and inflation.

(4) (6 pts) What is seigniorage and how is it measured?

(II) Latin America: Opening/Reform

(1) (10 pts) Identify the changes that took place regarding foreign trade and the effects of privatizations on the countries’ economies.

(2) (6 pts) According to Franko, after the Latin American reforms of the 80's and early 90's the informal sector played a significant role. Briefly define what the informal sector is and identify its role in job creation and its positive or negative effects on the overall economy.

(3) (6 pts) Briefly identify the trends in inequality in Latin America in the period 1970-95.

(III) Mexican crisis

(10 pts) Briefly identify the role of capital inflows/outflows and government policy in the Mexican crisis.

(IV) Argentina’s crisis (answer only one of the following two questions) (10 pts)

(1) What was the role of the government deficit in the crisis?

(2) What were the two most likely causes of the Argentine crisis according to Feldstein?

(V) Eastern Europe- Former Soviet Union

(1) (10 pts) Present Easterly and Fischer’s arguments that link the elasticity of substitution between labor and capital to the productivity slowdown in the former Soviet Union.

(2) (6 pts) Briefly explain why the collapse of the CMEA resulted in a negative shock to the terms of trade of the Eastern European countries.

(3) (6 pts) Briefly explain why according to Roland there were distortions in the product quality during socialism.

(4) (6 pts) Briefly explain why there was a bias toward big firms and backward integration during socialism.

(5) (6 pts) Briefly explain two objectives of the transition process according to Roland (i.e two of the things that hoped to be achieved).