You are to analyze the interrelationship between a country's balance of payments situation, its general economic performance (growth, unemployment, inflation) and the government's macroeconomic policy. You may use secondary sources (properly cited) to contribute to your analysis and you may find economic summaries from the OECD or the U.S. Department of Commerce useful, as well as political overviews from the CIA. The principal goal, however, is that you use primary data from the IMF, World Bank, and/or UN to document your own interpretation of economic events over the past decade. Ways to access these sources are given at the end of this outline. The data you use should be included as an appendix to your paper. Nevertheless, to avoid forgetting the important lessons we learn about citation practices in tutorial, cite the source (and line number) of data you use in the text of your paper.

Please provide an executive summary (a place to highlight the most important events and conclusions drawn) and a table of contents after your title page. That way we both can identify the key points made in your paper and the progression of ideas presented. Does your paper have a clearly stated thesis and do you cite trends or facts that support it? Also, consider what types of evidence make a convincing explanation: what changes would show up in a single year and what changes would take longer to observe; were conditions before a change in policy sustainable or what underlying trends did policy offset or augment; are year-by-year changes most relevant or are cumulative changes relative to some base period more revealing?

Concepts you should cover, and the types of evidence you might present, are discussed below, although you are free to organize these ideas in alternative ways. Remember, your grade primarily depends upon your ability to show whether the analytical approaches we have studied apply to the country you are examining. Present your findings in a convincing way to support the conclusions you draw and don't let disorganization or spelling and grammatical errors detract from your argument. Of course, not every point described below need be relevant to your country.

I. The Country's Balance of Payments Position
   A. If the country faced an overall deficit, how was it financed? (Sale of reserves, borrowing from the IMF, rescheduling of debt, etc.)
   B. What was the current account balance as a share of GDP?
   C. If the country faced a current account deficit, was it offset by a private capital inflow, or was official intervention necessary? Were private capital flows primarily in the form of foreign direct investment (more difficult to reverse) or portfolio/other investment?
   D. Over years that the country ran a larger current account deficit, show as a percentage of GDP, how that allowed more spending in the economy, and identify whether this increase was primarily accounted for by greater household consumption, government consumption, or capital formation.
   E. Over years that the country ran a larger current account surplus, show what items decreased as a share of GDP (C, I, or G) to allow it to acquire more foreign assets.
F. Were there signs of capital flight and a lack of confidence in the country's future prospects? (Consider financial account entries plus errors and omissions)

G. Did a current account surplus result in the acquisition of foreign assets, a decrease in liabilities to foreigners, or the accumulation of official reserve assets?

H. If the country depended upon a few primary export products, was there considerable volatility in its trade balance, due to shifts in export prices and earnings?

II. The country's economic growth and standard of living.
A. What was the growth in real income and real income per capita? For a primary product producer, is this performance related to its terms of trade (Px/Pm)?
B. Did strong growth result from export promotion, as suggested by a rising X/GDP ratio?
C. If the economy grew rapidly, did that cause imports to increase and/or attract a capital inflow?
D. Did balance of payments problems appear to force the country into a position of economic stagnation?
E. What changes in real wages have occurred? What changes in real consumption have occurred?

III. What macroeconomic policies contributed to this performance? Especially, how did these policies affect saving, investment, taxes, and government spending?
A. Fiscal policy: Did government budget deficits grow as a share of GDP when economic output was below average? Was that a result of rising government expenditures, an inability to collect tax revenues, or falling GDP?
B. Monetary policy: Were real interest rates positive and/or rising when economic output was above average? In countries where the interest rate does not represent a market-determined price, when was there rapid growth in the money supply – years of above-average output, years of balance of payments surpluses?
C. Were monetary and fiscal policy largely independent of each other, or did a large increase in the budget deficit cause a large increase in the money supply?

IV. The country's foreign exchange regime.
A. Was the currency pegged to some other currency? If so, did this limit the independence of the monetary policy choices you considered above? For example, could its interest rate differ much from rates in other countries? If the country relied upon income adjustments to alter its demand for foreign exchange, how costly was this policy as determined by its marginal propensity to import?
B. Did the currency become overvalued, as measured by purchasing power parity? (i.e. If you compare the change in that country's producers' prices to the change in the United States, is the difference offset by a change in the value of its currency? If you are looking at a country within the European Monetary System, compare to Germany; within the French franc zone in Africa, compare to France.)
C. Did you observe periods when the value of the exchange rate changed? What are the major exports and imports of the country, and to what extent are the corresponding demand elasticities likely to make depreciation a successful policy? If depreciation shifts spending toward domestic production, are there reasons to expect more than a temporary improvement in the trade balance? Did
exchange rate variations have different short-run and long-run effects on the country's trade position? Can a J curve pattern of adjustment be observed?

V. The country's debt position and vulnerability to financial crises
   A. Has the country fallen into payment arrears?
   B. Are periods of financial crisis linked to years of rising debt service payments relative to exports, a rising ratio of short-term debt to total debt, and a reduction in the maturity structure of its borrowing?
   C. How do the country's ratios of debt to exports of goods and services or debt service relative to exports of goods and services compare to standards applied elsewhere? (e.g. a World Bank goal in reducing the debt burden of highly-indebted poor countries, the HIPC Initiative, was a value for debt/XGS no greater than 150%, debt service to exports of 10%.)

VI. Other events and influences of note - what role was played by wars, natural disasters, elections, political instability, etc.

Conclusions - If your thesis is that the government pursued a responsible macroeconomic policy, summarize the evidence that supports such a judgment. If you believe an alternative policy would have been more effective, explain why you expect that to be true.

To access Global Development Finance and World Bank Development Data, follow these steps:
1. Close all programs
2. Click on START
3. Click on RUN
4. For Global Development Finance, type the following:
   \lib_cd_svr\volumes\Global Development Finance\setup.exe
5. Click on NEXT at every prompt until it has completed, then click on FINISH.

For International Financial Statistics, go to:
- http://www.lib.grinnell.edu/research/Databases/index.htm
- Select I
- Click on WEB by International Financial Statistics

Here are three guides to walk you through the process of working with the IMF data. Note that these are assignments that you will post on the class web page.

Exercise 1
Exercise 2
Exercise 3

With respect to the sources cited in paragraph one:

The U.S. Department of Commerce site:
- Choose "Country and Industry Market Reports"
• For the Market Research Library search, enter your country. For the report type, choose "Country Commercial Guide" and click on "Go."
• From the available chapters (you may have to click on "more" to see them all) the most useful are likely to be "Chapter 2 Economic Trends" and "Chapter 3 Political Environment."

The OECD site:

• This link will take you to the OECD Economic Surveys page
• Scroll down and click on the country you want
• Click on the link with "Macroeconomic" in its title (if that country has one)
• Click on "Full Text (pdf)"

At the CIA site you have direct access to the World Factbook.