Term Paper Analysis
Ecn 233-01
Fall 2008

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 the country’s consultations with the IMF or a political overview 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.) If it ran an overall surplus, did it acquire more reserves or pay back IMF loans?
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? If it ran a current account surplus, what kind of foreign assets did it acquire?
D. Over years that the country ran a larger current account deficit, shown as a percentage of GDP, how did that allow spending shares on consumption, investment, or government purchases to increase? If CA/GDP became more
negative (fell from -1% to -3%, say), is that primarily the result of greater
domestic investment [capital formation/GDP] or a decline in total domestic saving
[public plus private saving, or (T-G+S)/GDP]?
E. Over years that the country ran a larger current account surplus (or smaller
deficit), 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. 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? Was policy intended
to offset domestic or foreign pressures?
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 and 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 substantially? Is this country likely to face elastic demand for its exports and imports, which will give a larger output response to the exchange rate change? If the country did experience a large depreciation, did it retain much competitive advantage from the depreciation, or did its subsequently higher inflation rate offset that advantage?

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 (Debt/XGS) 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.

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 link from the U.S. Department of Commerce site http://www.buyusainfo.net/adsearch.cfm?search_type=int&loadnav=no takes you to the search page for the Market Research Library. At that point:

- Enter your country name. For the report type, choose "Country Commercial Guide" and click on "Go."
- From the available chapters in the guide, the most useful one is likely to be on the Political and Economic 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 (https://www.cia.gov/library/publications/the-world-factbook) you have direct access to the World Factbook.

The link to find IMF Article IV consultations with your country is http://www.imf.org/external/country/index.htm