

The last one!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points each) For each of the following criteria of potential debt problems, tell me whether it is a problem of illiquidity or insolvency. Explain how that criterium signifies a problem and why you chose illiquidity or insolvency.

A) The NPV/GDP is 100%.

B) Debt service/exports is 30%.

C) The debt/government revenue is 300%.

2) (10 points) Why is the NPV of the debt not the same as the debt in many cases? Determine which is larger and why it is larger.

3) (15 points) We said that if the imports and exports both grow at rate  $g_x$  and the current ratio of the trade deficit to the next exports is  $a$ , then the debt-export ratio will approach  $a/(g_x-i)$ . Explain why a larger  $a$  and a larger  $i$  cause the ratio to increase while an increase in  $g_x$  will decrease the ratio. Hint on  $g_x$ , think of it as the growth rate of exports, not the growth rate of imports. Hint on typing  $i$ . Type  $ii$ , then hit space. Move the cursor left and delete one of the  $i$ 's. Move the cursor right without hitting space. Or type  $i$ . Then, type space. When the computer capitalizes  $I$ , hit ctrl-z.

4) (20 points) Bono and The Edge regularly argue that much of the debt of developing countries should be forgiven. How would this happen? Why do they push for it? What is the biggest drawback of their plan? Explain your logic.

5) (10 points) The Greek debt crisis was the result of at least two "events" or "problems with their economy." What were those problems and how do they lead to the riots in Greece?