Wilfrid W. Csaplar Jr. Comparative Economic Development Review Sheet for Exam #4

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will probably be 12/2 or 12/3, at a time to be determined in class.

Chapter 12:
What is meant by the **financial system**? How does it relate to **monetary policy**? What are **micro-credit institutions**? What are the **three uses of money**? What is in, and what are the differences between **M1, M2,** and **M3**? What is meant by **financial intermediation**? How does it affect risk and stabilize the economy when working correctly? What are the problems with **inflation**? In general, what are the differences between **chronic inflation, acute inflation,** and **hyperinflation**? What are the effects of them? What is meant by **fixed (pegged) exchange rate, adjustable peg, crawling peg, managed (dirty) float, wide band system,** and **clean float**? What are the advantages and disadvantages of each? What are **international reserves**? Understand why **M = DR + IR**. Use it to explain why having a fixed exchange rate causes the central bank to lose control over the money supply. What are the **four tools** the central bank can use to control the money supply. (**Moral suasion** is not in my macroeconomics textbooks because it is ineffective.) How can **credit ceilings** be used to affect the inflation rate? What is meant by **shallow finance** and **financial deepening**? How do the following cause shallow finance: low real interest rates, restrictions on entry to the financial market, and high required reserves? What are **informal credit markets** and **micro-finance**?

Chapter 13 (old 15):
What is the difference between **illiquid** and **insolvent**? What are the advantages and disadvantages of foreign borrowing? For the **six debt indicators on Page 461**, understand why those would indicate too large of a debt, either illiquidity or insolvency and either a **debt service problem, external transfer problem,** or **internal transfer problem.** Understand the equations on Pages 462 - 463 and how they relate to the issue, especially 13-2 and 13-4. What is meant by **debt overhang**? What can cause a **debt crisis**? What is the impact upon the country of the crises? How can they get out of the problem? What are the pluses and minuses of the **proposals on Pages 471 and 472**? How can short-term capital flows affect the crises? What is meant by **defensive lending** and **completion point**? Why do they matter? How do short-term loans help the problem? What is a **creditor panic**? What causes it? What can be done about it? What are the advantages and disadvantages of the **solutions on Pages 489-490**? How does **moral hazard** relate to the situations?

Chapter 14:
What is ***foreign aid*****?** What is the difference between ***concessional*** and ***non-concessional assistance***? What are **ODA** and **private voluntary assistance**? What are **multi-lateral aid, IMF** and **World Bank**? Why do governments give aid for foreign policy, to fight poverty, to small countries, commercial ties, and to help democracies? Understand the reasons why some people feel that aid is good for the economy, while others think it has little or no effect, and others feel it depends upon certain circumstances. What is the **poverty trap**? Why might the effectiveness of aid depend upon what it is used for and whether or not the money is **fungible**? What is the ***principal-agent problem*** and how does

it relate to the IMF? What can be done to improve the effectiveness of aid? Does **conditionality** affect the effectiveness of the aid? How can **country selectivity, recipient participation, harmonization & coordination,** and **results-based management** improve the results?

This is the non-graded Assignment #9A that will be reviewed with Assignment #9.

1) (15 points) Of the arguments which say that foreign aid is helpful is the strongest? Why do you feel that?

2) (15 points) Why might letting the credit panic run its course be the best policy?

3) (20 points) Some people think that the developed countries should reduce the debt of developing countries. What are the good and bad aspects of doing that?

4) (10 points) Why do some economists feel that emergency aid does not help development?

5) (20 points) The IMF puts conditions of loans. What type of conditions do they put? Are they a good idea?

6) (10 points each) For each item below, explain how that influences ODA?
A) Foreign policy
B) Small country

The review sheet for the final, including the help and questions about Chapter 15, will be handed out later in the week, most likely by Friday.