Wilfrid W. Csaplar Jr. Comparative Economic Development Review Sheet for the Final

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 final is Saturday 12/14 at 1:00. The review session will at a time to be determined in class. The final will be comprehensive and will come evenly from all material covered. Below is the material after the last exam.

Chapter 15: What do **open economy, small economy, tradable goods and services, non-traded goods and services, devalue,** and **revalue** mean? Do not worry about the *Australian model*, Pages 547 - 549, 552-553, except for the definitions of **internal balance, external balance,** and **real exchange rate**. Understand the calculation for the real exchange rate. *Note that it is $RER= eP_T/P_N$.* For the **phase diagram** *it is easiest to think of absorption the way another book I have called it "Domestic Expenditures or Absorption." Therefore, "absorption" is really domestic demand for goods while RER affects the foreign demand for goods.* Know why the **IB line** slopes down and the **EB line** slopes up. *For both questions, start with the question of "if we have balance and RER goes up, what will have to happen to regain balance?" For the IB line, if RER goes up, tradable goods are more expensive, so there is too much demand for non-tradable goods. Therefore, we need to have less demand for all goods which requires less absorption. For EB, when RER goes up, we try to export more and import less because tradable goods are expensive. To achieve balance, we need to import more, which requires more absorption.* Understand why we tend towards equilibrium. *Note that P_T is set by the world, so we cannot affect it. Being off of IB affects P_N, while being off of EB affects absorption.* What policies can be done to get back to equilibrium? Ignore the Dutch disease. Understand why an increase in debt service moves EB up/left, but debt relief moves it down/right. How does **austerity** move the point? Ignore the droughts, etc.

Questions based on Chapter 15.

1) (25 points) Draw the IB/EB (phase) diagram for an economy. Assume that we start below and left of the equilibrium point, but still above the EB line. What actions would the government have to do as far a fiscal policy and monetary policy to get back to equilibrium? Explain your logic and explain why those two actions would bring us back to equilibrium.

2) (25 points) Draw the IB/EB (phase) diagram for an economy. Assume that we start below and left of the equilibrium point, but still above the EB line. If the economy was left alone, what would bring us back to equilibrium? Explain your logic.

3) (25 points) Draw the IB/EB (phase) diagram for an economy. Illustrate the effects of debt forgiveness on the graph. Explain why it moved as drawn.

4) (10 points) Explain why IB slopes down.

5) (5 points) The fact that the diagram is for a small economy means that what about the phase diagram?

6) (10 points) Explain why EB slopes up.