Wilf Csaplar Jr. Economics 260 Homework #8 **Due Friday 11/10**

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 10 points. 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) Why is *financial intermediation* important for an economy to grow? What does having M2 be a small percentage of the GDP mean? Explain how you reached your conclusion and why it is bad.

2) (15 points) The IMF is predicting that the inflation rate in Venezuela may be 2300% in 2018. What causes that problem? Why is it bad? (Hint: You may want to refer to your notes from ECON 162, Chapter 7, but one of those two problems really does not exist at such high inflation rates.)

3) (15 points) Free floating exchange rates and pegged exchange rates are common, but most developing countries have their exchange rate pegged. Why would they have it pegged? What is the problem with pegging your exchange rate? Explain your logic.

4) (10 points) Why are interest rate ceilings bad? Explain your logic.

5) (15 points each) For each of the following, tell me if this is a problem of illiquidity or insolvency. Explain your logic including how a number higher than those given are a problem. Also tell me if it is an external transfer problem or an internal transfer problem and why you chose that.
A) NPV debt/GDP >50%.
B) Debt service/exports >25%.
C) Short-term foreign debt/foreign exchange reserves >1.