Wilf Csaplar Jr.   Economics 260   Homework #8   **Due Friday 4/15**
Your last chance to flunk a homework assignment.
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) (10 points) Suppose a country facing high inflation may want to impose interest rate regulations. Do you think it would be effective? Explain your logic.

2) (15 points) What is meant by *shallow finance*? Is it good or bad? Would restrictions on entry to the financial market be likely to cause that or prevent it?

3) (10 points) Do you think a developing country should have a fixed exchange rate or a flexible exchange rate? Explain your logic.

4) (15 points) The book says that a ratio of debt/exports > 200% is an indicator of too much debt. Why is that a problem? Is that a problem with illiquidity or insolvency? Is that a debt service problem, external transfer problem, or an internal transfer problem? Explain your logic for all parts.

5) (15 points) The book says that a ratio of short-term foreign debt/foreign exchange reserves >1 is an indicator of too much debt. Why is that a problem? Is that a problem with illiquidity or insolvency?   Is that a debt service problem, external transfer problem, or an internal transfer problem? Explain your logic for all parts.

6) (15 points) Bono from U2 argues that the developing countries should have much of their debt forgiven. What are the pluses and minuses of doing that? Do you think it should be done? Explain your logic.

7) (10 points) A government can stop a creditor rush by restructuring foreign debt so it will be repaid over a longer period of time. How would that reduce the panic?

8) (10 points) A financial crisis can be partially stopped by a debt-equity swap. What does that mean and why might that work?