

ECO 209 Macroeconomic Theory and Policy

Case Study No. 5

Case Study No. 5 on ***Dutch Disease: The Resource Curse*** will be discussed in class on **February 11**. The required short-readings have been posted on the course website. Read these articles and come to class ready for the discussion. The following questions will help you in your preparation:

- 1) What is “Dutch disease”? What are the main causes of Dutch disease?
- 2) What conditions are usually needed for Dutch disease to arise in a country? Why are developing countries usually more prone to experience Dutch disease?
- 3) What happens to a commodity-exporting country when the prices of commodities significantly increase? How is the country’s composition of output affected? What is the transmission mechanism?
- 4) Would a country be more prone to *catch* Dutch disease if it had a flexible exchange rate system rather than a fixed one?
- 5) When should this change in the composition of output become a matter of concern?
- 6) Why might it be important for most countries to try to maintain a healthy manufacturing sector?
- 7) How important is the commodity sector (oil, minerals, soybean, meat, etc.) as a source of employment opportunities? What are the likely labour market outcomes of a rapid and significant expansion of the commodity sector?
- 8) How might the distribution of income be affected by a commodity export boom?
- 9) What measures could the government implement to protect the economy from the negative impact of an export boom (i.e., from Dutch disease)? Would it make a difference whether Dutch disease arises from an oil boom or a soybean boom?
- 10) What happens in Canada when the price of oil increases? Does the Canadian experience resemble that of Dutch disease? What can the federal government do to prevent the negative impact of an oil boom?