

ECO 407 – L0101

Competing Views in Macroeconomic Theory and Policy

Term Test

Instructions:

- The total time for this test is 1 hour and 45 minutes.
 - Answer TWO of the following THREE questions in essay form.
 - Each Question is worth one-half of the total grade.
 - No aids allowed.
 - Answer each question in a separate booklet.
 - Please write legibly. If I can't read your handwriting, I can't award you any marks!
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1. Critically comment on the following statement: "It is generally accepted that markets, when they exist, work poorly in developing countries. However, while heterodox economists make a case for the implementation of industrial policy to address market failures, orthodox economists argue that governments are not good at picking winners and that industrial policy is an invitation to corruption and rent-seeking behaviour."
 2. Critically comment on the following statement: "Fiscal austerity has emerged from the debate on the euro crisis as the main strategy to restore growth and employment. According to this view, reducing public debts reduces interest rates and injects confidence in the private sector, freeing the basic instincts to invest and consume."
 3. Given the strong correlation between the value of the Canadian dollar and the price of oil, it is argued that Canada should adopt a fixed-exchange rate regime to avoid the so-called Dutch disease. Some supporters of this view go even further and suggest that Canada should adopt the U.S. dollar as its currency. What is your position in this argument? Should Canada fix the exchange rate? Should Canada adopt the U.S. dollar? Critically review the pros and cons of these suggestions.