

ECO 407 – L0101
**Competing Views in Macroeconomic
Theory and Policy**

Term Test

Instructions:

- The total time for this test is 1 hour and 30 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!
-
1. Critically comment on the following statement: "All of today's developed countries have become rich through free-market policies, especially through free trade with the rest of the world. As David Ricardo demonstrated almost two centuries ago, specialization and trade based on the principle of comparative advantages makes all countries better off. Therefore, developing countries should fully embrace free-trade policies in order to close the income-gap with developed countries."

 2. 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.

 3. In periods of economic boom, it is argued that unrestricted cross-border movements of capital contribute to exchange rate appreciation, current account deficits, and/or excessive accumulation of foreign exchange reserves. Therefore, it appears that capital account regulations might be somehow justified. What is your position in this regard? Should developing countries introduce capital controls? And what about developed countries? Critically review the pros and cons of capital account regulations.