ECO 406 – L0101
DEVELOPMENTAL MACROECONOMICS

Take-Home Test

Instructions:

- Answer the **six** questions below.
- Each question is worth **one-sixth** of the total grade.
- Answers to each question must be at least **300 words** in length but should not exceed **600 words**. Marks will be deducted for answers shorter than **300 words** or longer than **600 words**.
- If you refer to other works in your answers, you could correctly paraphrase the authors but not literally quote them.
- The test is due on **February 14**.
- A **hard copy** of the test must be submitted at the beginning of class on **February 14**.
- An **electronic copy** of the test must be uploaded to both **Crowdmark** and **Turnitin.com** by **February 14**.
- The electronic copy uploaded to **Crowdmark** must be in **pdf format**, while the copy uploaded to **Turnitin.com** must be in **Word format**.
- When submitting your paper to **Turnitin.com** you must refer to **Class ID: 19917491** and **Enrollment Password: eco406**.
- You must submit a **hard copy** of the test and upload an **electronic copy** to both **Crowdmark** and **Turnitin.com** by **February 14** for the submission to be complete. The submission will be considered **late** if any of these **three** requirements is not fulfilled by **February 14**.
- **Late** submissions will **not** be accepted (**without exceptions**).

Critically comment on each of the following SIX statements as they refer particularly to middle-income developing countries:

1. While any increase in autonomous expenditure (i.e., in consumption, investment, government spending, and/or exports) will cause the economy to expand in the short run, only increases in autonomous exports will cause the economy to grow in the long run.

2. Cyclical and chronic overvaluations can be explained in the context of a flexible exchange rate system, but not in the context of a fixed exchange rate regime.

3. When an economy faces Dutch disease, the market exchange rate fluctuates around the current account equilibrium exchange rate and the economy goes through a process of deindustrialization.

4. Consider a middle-income country without capital flows. If Dutch disease is fully neutralized, then the industrial equilibrium exchange rate and the current account exchange rate will be equal and the current account will be balanced.

5. For many years, China has had large current account surpluses. For many observers, this is proof enough that Chinese authorities have been manipulating the value of the renminbi to attain an unfair advantage in international markets.

6. Foreign savings complement domestic savings. Therefore, access to foreign savings allows developing countries to grow at a faster pace in the long run.