

ECO 120: Global Macroeconomics

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Spring 2014

Due Thursday, May 9 at 11:59pm to the appropriate D2L folder

In 1999, the government of Brazil allowed its currency, the *Real*, to depreciate significantly against the Argentine Peso. The Argentine economy was already in a recession, and it grew much worse with the depreciation of the Brazilian *Real*.

Imagine that you are an economic consultant for Argentina's Economy Minister at the time, Domingo Cavallo. He asks you to prepare a short memo that explains to Argentine politicians the economic issues surrounding this event.

Directions:

- **Prepare a memo addressed to Argentina's elected policy makers (approx 2 pages) that addresses the four prompts below.**
- **Use graphical models from class in your memo where appropriate (see Note #1 below)**
- **Include your name and student ID in your response**
- **Submit your memo to the appropriate D2L Dropbox folder (see Note #2 below).**

A. In your memo, explain why the depreciation of the Brazilian *Real* would be so devastating to the Argentine Economy. Include what could happen to international trade, employment, real GDP, etc.

B. To offset the negative effect described in (A), suppose the government of Argentina is considering a policy to boost demand for Argentine exports sold to the United States. This can be done by intervening in the U.S. dollar / Argentine Peso market to change the equilibrium exchange rate. Describe a policy that Argentina's government can pursue to accomplish this (You may refer to Module 43 of your textbook for information on government policy regarding exchange rates). Include in your answer the effect this policy should have on Argentine exports, employment, real GDP, etc.

C. Over several years previous to this time, businesses and consumers in Argentina had borrowed substantial quantities of U.S. dollars from the United States. Describe the effect that the change in exchange rate that you describe in part (B) has on Argentina's ability to pay back dollars it owes to the United States (note: Argentina must pay its loans with U.S. dollars, but their income is in Argentine Pesos). Describe the impact that this may have on Argentina's economy, including the effect on spending, employment, and real GDP.

D. Consider your responses to the prompts (A) through (C). Regarding your policy suggestion in part (B), you should have identified one advantage and one disadvantage in parts (B) and (C), respectively. Conclude your memo by weighing the what you think are the relative importances of these advantages and disadvantages with a recommendation for Argentina's policy makers on a government intervention to influence the equilibrium exchange rate.

Notes:

1. Graphs can be drawn by hand or created electronically. If you draw graphs by hand, please take a picture of your graph or scan your graph, and include the image in your memo.
2. All submissions will be run against TurnItIn, a ***cheating and plagiarism detector*** used by UW-L faculty, that compares your submission to all other students' submissions in this and other courses, and against online sources. ***Please do your own work.***
3. Remember that **this writing assignment is a memo, not an essay!** Please follow these guidelines concerning writing effective memos and in the proper format:
 - Regarding purpose: <https://owl.english.purdue.edu/owl/resource/590/01/>
 - Regarding content: <https://owl.english.purdue.edu/owl/resource/590/02/>
 - Regarding format: <https://owl.english.purdue.edu/owl/resource/590/03/>