

The Global Macroeconomy

1. The data in Table 1-1(12-1) end in 2011. Visit the U.S. Bureau of Economic Analysis at bea.gov to find information for the latest full calendar year (or for the last four quarters). What is the latest estimate of the size of the annual U.S. current account deficit in billions of dollars?

Answer: The data can be found in Table 1—US International transactions. Based on the data available as of September 2013, the second and third quarter of 2012 and the first and second quarter of 2013 had current account balances of −106.7, −102.3, −104.9, and −98.9 billion U.S. dollars, respectively. Thus, the one-year estimate is a deficit of 412.8 billion dollars, which is about 61 billion dollars less than for the year 2011 as shown in Table 1-1(12-1).

2. The data in Figure 1-1(12-1) end in 2012. Visit oanda.com (or another site with daily exchange rate data) and download data on the same exchange rates (yuan per dollar and dollar per euro) for the past 12 months. What are the rates today? What were they a year ago? By what percentage amount did the rates change? Do you think the rates are floating or fixed? Why?

Answer: Answers will depend on the latest data update. The yuan per dollar exchange rate is fixed (with only occasional changes in its value) and the euro-dollar exchange rate is floating as evident from its wide fluctuations over time.

As of September 2013, the weekly average for yuan per U.S. dollar was about 6.14; one year ago it was about 6.34. The yuan has appreciated by about 3.2%. On September 22, 2013, the weekly average was 1.34 dollars per euro; one year ago it was 1.29. Thus, dollar depreciated by about 3.8%.

3. The data in Figure 1-3(12-3) end in the year 2011. Find the IMF's World Economic Outlook Databases. (*Hint:* Try searching “world economic outlook databases.”) Use this full data set to obtain the latest data on current accounts in U.S. dollars for all countries (actual data or IMF estimates). Which countries had the 10 largest deficits last year? Which countries had the 10 largest surpluses last year?

Answer: Answers will depend on the latest data update. As of October 2013, the 10 countries with the largest current account deficits were:

Country	2011	2012	2013
United States	-457.726	-440.417	-451.458
India	-78.154	-88.163	-77.601
Brazil	-52.473	-54.231	-74.012
United Kingdom	-36.041	-93.866	-69.096
Turkey	-75.092	-47.75	-60.661
Canada	-48.98	-62.266	-57.092
Australia	-34.089	-56.901	-50.34
France	-48.996	-57.142	-43.414
Indonesia	1.685	-24.074	-29.578
South Africa	-13.62	-24.068	-21.477

The 10 economies with the largest current account surpluses were:

Country	2011	2012	2013
United Arab Emirates	50.949	66.553	59.448
Norway	62.705	70.817	60.773
Japan	119.304	60.446	61.064
Russia	97.274	74.799	61.18
Switzerland	59.082	70.756	68.101
Kuwait	67.175	79.768	72.092
Netherlands	84.86	77.839	86.993
Saudi Arabia	158.582	164.693	138.875
Germany	224.29	238.493	214.596
China	136.097	193.139	223.743

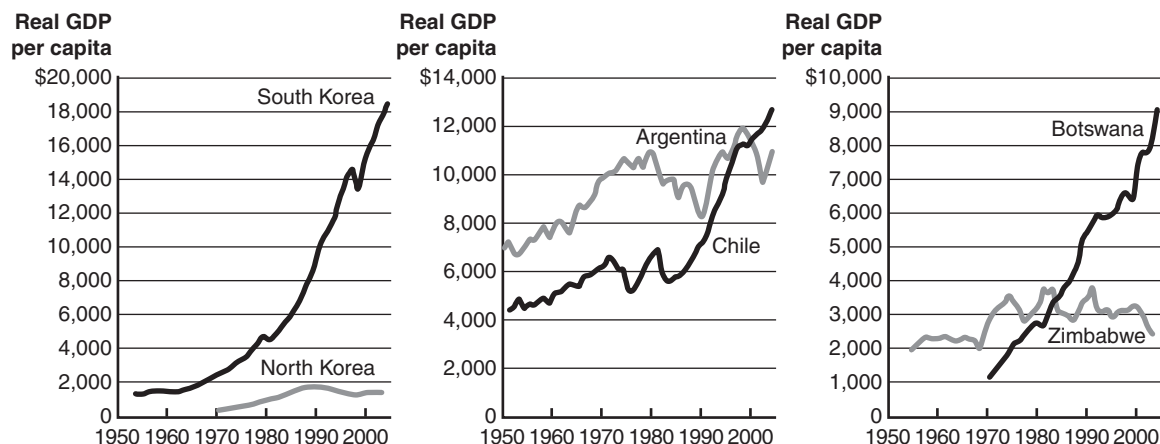
4. Visit the *Financial Times* website (at ft.com click on “Market data”) to download data for country risk today. (*Hint:* Try searching “FT high-yield emerging markets.”) Which three emerging market countries have the highest spreads on their U.S. dollar debt? Which three have the lowest?

Answer: Answers will depend on the latest data update. The spread also depends on the date of maturity for these bonds.

As of September 2013, based on the data provided in the Table ‘Bonds–High Yield & Emerging Markets’, the three highest spreads are 2.18, 2.42, and 2.62 for Mexico, Russia, and Indonesia for their bonds maturing in August 2031, March 2030, and February 2037, respectively. The lowest spreads are of 0.70, 1.11, and 1.34 for Mexico, Bulgaria, and Brazil for their bonds maturing in September 2016, January 2015, and March 2015, respectively.

5. The map at the end of the chapter shows the World Bank’s composite governance indicator. The World Bank has prepared other indicators to measure institutional differences among countries. Use the Internet to find the World Bank’s “Ease of Doing Business Map.” (*Hint:* Again, try an Internet search.) Do you notice a correlation between the ease of doing business and the overall governance indicator? Can you find countries that rank high on the Ease of Doing Business indicator but low on the governance indicator? Are these countries rich or poor? (*Hint:* Look up their GNI per person at the World Bank by searching “world bank GNI per capita.”)

Answer: There is a positive relationship between the governance quality indicators and the ease of doing business. There are examples of countries that rank high on the ease of business but low on governance, such as Thailand, Tonga, Mongolia, China, Georgia, Armenia, Romania, Saudi Arabia, Peru, Belize, and Sri Lanka. Most of these are developing, low-income countries. Saudi Arabia, ranked roughly 50th in the world in terms of income per person, is a notable exception.



	Control of Corruption	Government Effectiveness	Political Stability and Absence of Violence	Rule of Law	Regulatory Quality	Voice and Accountability
South Korea	0.37	0.63	0.49	0.64	0.47	0.76
North Korea	-0.93	-1.10	-0.66	-1.08	-1.70	-2.02
Chile	1.56	1.34	0.85	1.31	1.38	0.56
Argentina	-0.34	0.28	0.48	0.17	0.45	0.44
Botswana	1.02	0.98	0.90	0.67	0.79	0.78
Zimbabwe	-0.87	-1.13	-1.21	-0.74	-1.61	-0.97

6. The charts on page 23(433) show the growth of real GDP per capita in three pairs of geographically adjacent countries: North and South Korea, Argentina and Chile, Zimbabwe and Botswana (using data from the Penn World Table).

- a. Which country in each pair experienced faster growth in GDP per capita? Which one is now richest?

Answer: South Korea experienced faster growth than North Korea. Argentina experienced faster growth than Chile between 1970 and 1980, but Chile's growth rate was higher than Argentina's between 1980 and 2000. Botswana has grown faster than Zimbabwe since 1970. As of 2006, the richest countries are: South Korea, Chile, and Botswana. Of the three, South Korea is the richest.

- b. The World Bank's World Governance Indicators for each country in 2000 were as shown in the table above (higher is better):

Based on these data, do you think institutions can explain the divergent outcomes in these countries? Explain. Why do you think it helps to compare countries that are physically contiguous?

Answer: South Korea has consistently higher governance ratings than North Korea. Similarly, Chile's are higher than Argentina's ratings, and Botswana's are higher than Zimbabwe's. Based on the information for these six countries, it appears as though quality governance is associated with higher economic growth.

7. Visit one of the many websites that lists all of the current exchange rates between different currencies around the world. Try a financial newspaper's site such as ft.com (follow the links to "Market Data," and then "Currencies"), or try websites devoted to foreign exchange market data such as oanda.com or xe.com (dig down; don't just look at the major currency tables). According to these lists, how many distinct currencies exist around the world today? Are some currencies used in more than one country?

Answer: Answers will depend on the latest data update. This answer is based on information obtained from the Market Data section in the *Wall Street Journal* for September 2013. The countries are divided into six groups: Africa, Americas, Asia, The Caribbean, Europe, and Oceania. There are 138 countries listed. Many countries in the Caribbean and Americas have adopted the U.S. dollar as their currency. The Eurozone uses the euro, and many countries outside the Eurozone have also adopted the euro as their currency.