

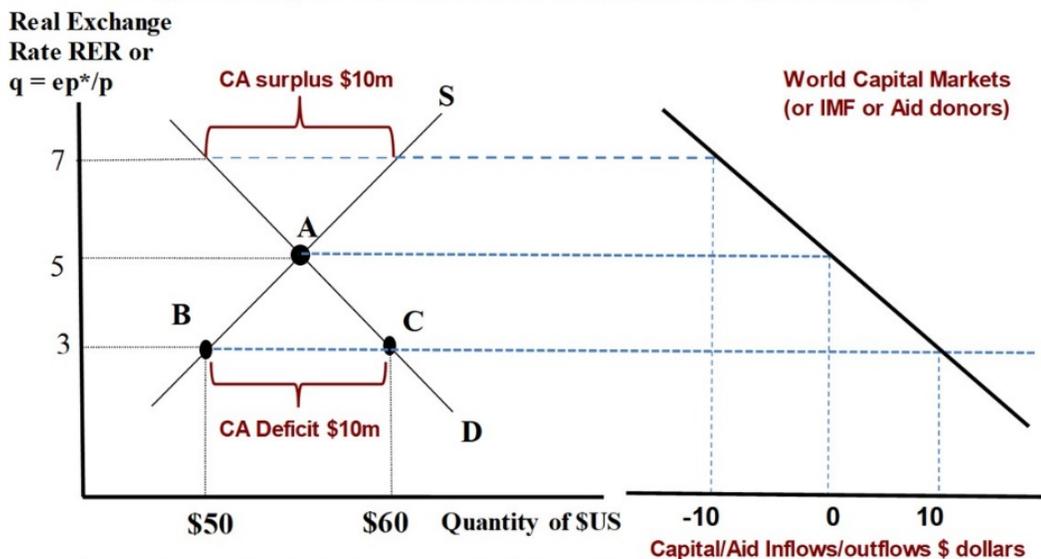
The optional review session is Sunday Dec. 16<sup>th</sup> 4:30pm in 112 or E530 Dealy the *final exam is Monday, Dec 18, 2017 1:30pm in Dealy 112* As discussed in my last email, the final exam will focus on these topics. Your jurisdiction specific case study draws on the homeworks, and in some cases your presentations. However, your case study is unique and if necessary can be completed after the exam by emailing it or submitting on BB (Case Study Template)

FER-Q1 As shown in [Figures P-4 and P-5](#) in 1960 Puerto Rico per capita GDP was about 29% of U.S. income per person, a bit higher than Chile at 27% but lower than that of Mexico, Argentina and Venezuela. Yet Puerto Rico (PR) passed all of these countries by 1985 and ended up at over 55% of U.S. income levels after 2000 even as Chile became the richest Latin American country at 35% of U.S. income. Cuba caught up with PR in 1985 surpassing Mexico and Chile (Fig P-8). What common factor contributes to the success of these two Caribbean economies (Puerto Rico and Cuba.. hint: citizenship, asylum and 22<sup>nd</sup> best economy to do business in 2006, see Table DB-2 below). *EC Why did Cuban growth falter after 1990 and Puerto Rican growth slow after 2000?*

FER-Q2: Chile has become a top performer closing the gap with the U.S. in part by mitigating the Dutch Disease somewhat. Use the Market for Dollars diagram and the TNT to show how Chile uses a fiscal rule and a sovereign wealth fund to stabilize its real exchange rate at a sustainable level. Why is this important to exporters and producers of non-tradable goods? *EC: The VP video on Michele Bachelet argues Chile’s problem is that it is “full of Chileans”, why might this be a problem? How can it be fixed?*

FER-Q3 In the [Mexican Paradox](#) Levy and Rodrik argue that Mexico’s problem is that it has been too inclusive, allowing people to get many benefits without paying taxes. A) Does the text agree with their argument. Use quotes from pages 137-38 to make your case. Note that Prospera extends benefits to include pension payments, medical care and microfinance services part of the transfer package tide to CCTs. How does this illustrate the BGD consensus? Do A&L argue these programs slow Mexico’s economic growth? In fact one could argue Mexico is using the NAFTA dividend to increase inequality and reduce poverty, especially among peoples historically excluded by racism, does the data support this argument (be specific, use Lustig, 2017 to update A&L, 2017 if possible). B) NAFTA began with a surge in capital inflows which led to a sharp appreciation of the peso (in part because it was pegged to the dollar). As shown in Figures RN-2 and R-3 below the peso appreciated by about 30% between 1987 and 1994, only to collapse at the end of 1994 just as NAFTA was about to be implemented. The peso recovered its strength, Mexico switched to a more flexible exchange rate, however because of remittances and tourism and oil exports the peso has remained relatively strong (compared to Brazil and Chile for example). Some like Sebastian Edwards (and Rodrik, 2008) argue a strong RER slows growth. The end of NAFTA and return migration may weaken the peso and make Mexico more competitive. Show both the strengthening of the peso due to capital inflows and outflows using the market for dollars diagram (see Figure 2 below and on slide 10 of [Lecture 3C on Exchange Rate Policy in Latin America](#), and see Sebastian Edward’s quote on slide 2).

**Figure 2: capital flows and the RER in a small open economy**



*In small open (developing) economies Fx inflows often determine the RER & CA balance*

## II. Examples of Direct quotes printed and brought to the final exam (unmodified from original text)

Quotes, References and Tables and Figures related to your case study start at the top of a page

**A&L Quote #1** *According to recent World Bank estimates for 2012, about 13 percent of Latin Americans are indigenous. Most of this indigenous population is concentrated in Mexico, Peru, Guatemala, and Ecuador. Nearly 50 percent of the population in Brazil-Latin America's largest economy-are mestizos, or Afro-Latin Americans. These populations often live in rural areas where the incidence of poverty is exceedingly high due to, among other factors, drastic changes in weather conditions in poorly constructed dwellings and lack of access to basic health services, drinking water, sanitation, and adequate school facilities. (A&L, 2017, page 131, Chapter 5)*

**A&L, 2017 Text Quote #2** *According to A&L, 2017 Table 5.2 page 127 About 34% of Mexico's population works in the informal sector, this is high, but not nearly as high as Peru (49%) or Colombia (50%).*

**A&L, 2018 Example Quote #3** *Moreover, anecdotal evidence suggests an increasingly large number of MCCTP (Mexican Conditional Cash Transfer Program) beneficiaries could "graduate" joining the ranks of the middle class and becoming ineligible. One of the authors of this book is engaged in research efforts by FOSIDES—a Mexican social development think tank—which is assessing thresholds carefully to classify a growing number of ineligible households.*

Start references on a new Page like this (add to this list if you want to, for your case study for example)

Armendáriz, Beatriz & Felipe Larraín or A&L (2017) The Economics of Contemporary Latin America. MIT Press, ISBN 0262533154 \$45 paper (Amazon or Bookstore) or e-book (\$31.75 Google Play to \$45 MIT Press Digital) see Chapter 6 and these web pages for a copy of Chapter 1 for cutting and pasting quotes

Evans, W. N., & Fitzgerald, D. (2017). The economic and social outcomes of refugees in the United States: Evidence from the ACS (No. w23498). National Bureau of Economic Research [NBER Digest Summary](#) with link to article)

Frankel, Jeffrey A., Carlos A. Vegh, and Guillermo Vuletin. "On graduation from fiscal procyclicality." Journal of Development Economics 100, no. 1 (2013): 32-47. <https://dash.harvard.edu/handle/1/8694931>

Levy, Santiago and Dani Rodrik (2017) [The Mexican Paradox, Project Syndicate Blog post](#), August 17th 2017,

### **Case study Data Tables and Figures References (this section will move to a separate document)**

The 3-Ps diagrams: [http://www.gdsnet.org/ECON3235\\_LatAm3Ps\\_PeerDiagramsFall2017.pdf](http://www.gdsnet.org/ECON3235_LatAm3Ps_PeerDiagramsFall2017.pdf)

HW#1 Recent growth and inflation for Bolivia et al can be converted to your peer or Comparator Countries: Econ3235HW#1AnswerTemplatev3.pdf (see Figure 3 and 4 showing inflation and growth)

From HW#4: Has your country had an [IMF Article IV Consultation](#) lately? Does your country/jurisdiction have a separate country report as part of ECLAC's [Economic Survey of LatAm](#) and the Caribbean 2017: Dynamics of the current economic cycle and policy challenges for boosting investment and growth September 2017.

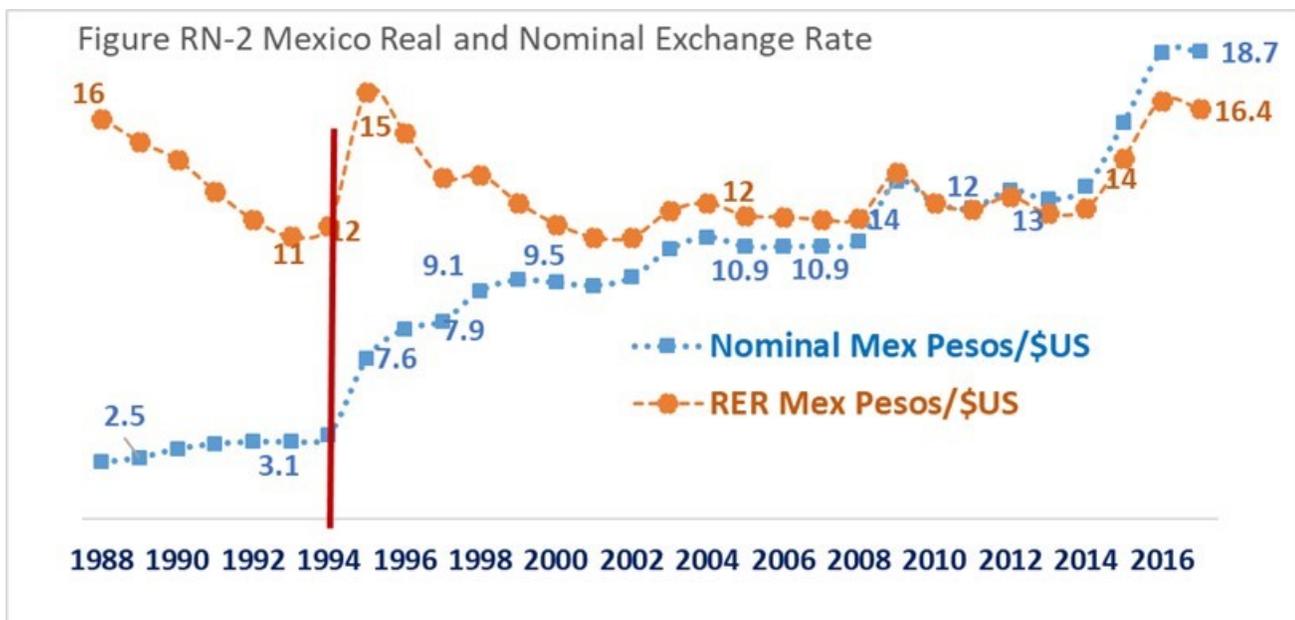
*Real exchange rates: USDARealAnnualExchangeRatesNov30th2017Update2.xlsx*

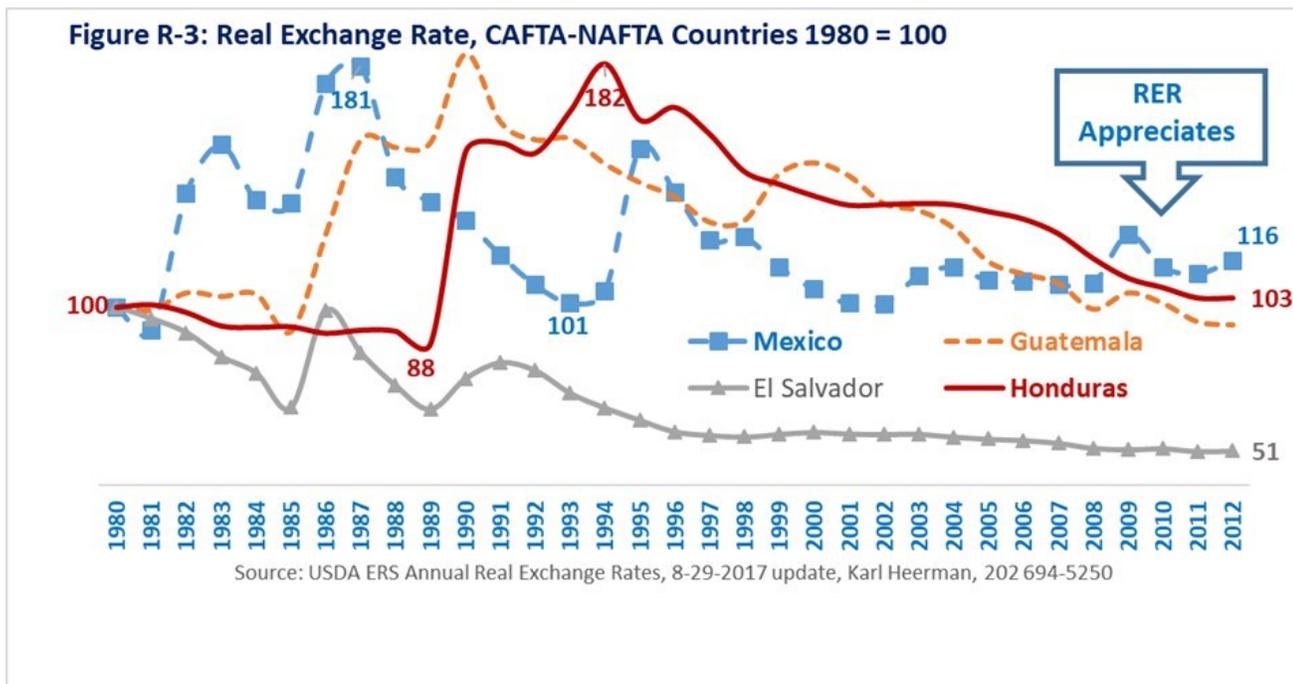
**Table DB-2 2018 Doing Business Rank, Latin America**

LatAm Jurisdictions: DB Rank	2018	Change Since			DB rank in:		
		2017	2011	2006	2017	2011	2006
Mexico	49	-2.0	-14	24	47	35	73
Chile	55	2.0	-12	-30	57	43	25
Peru	58	-4.0	-22	13	54	36	71
Colombia	59	-6.0	-20	7	53	39	66
Costa Rica	61	1.0	64	28	62	125	89
Puerto Rico	64	-9.0	-17	-42	55	47	22
Uruguay	94	-4.0	30	-9	90	124	85
Guatemala	97	-9.0	4.0	12	88	101	109
Dominican Republic	99	4.0	-8.0	4.0	103	91	103
Trinidad and Tobago*	102	-6.0	-5.0	-43	96	97	59
Paraguay	108	-2.0	-2.0	-20	106	106	88
Honduras	115	-10	16	-3	105	131	112
Argentina	117	-1.0	-2	-40	116	115	77
Ecuador	118	-4.0	12	-11	114	130	107
Brazil	125	-2.0	2	-6	123	127	119
Nicaragua	131	-4.0	-14	-72	127	117	59
Bolivia	152	-3.0	-3	-41	149	149	111
Haiti	181	0.0	-19	-47	181	162	134
Venezuela	188	-1.0	-16	-68	187	172	120

Source: Wikipedia Ease of doing business index <http://www.doingbusiness.org/rankings>  
[https://en.wikipedia.org/wiki/Ease\\_of\\_doing\\_business\\_](https://en.wikipedia.org/wiki/Ease_of_doing_business_) \*Since 2007

Source of Table DB-2: [http://www.gdsnet.org/LatAmPRTTableDB\\_1WBDoingBusinessRankings2018.xlsx](http://www.gdsnet.org/LatAmPRTTableDB_1WBDoingBusinessRankings2018.xlsx)





**Fall 2017 Possible Extra Credit Short Answer Questions:**

SA-1 Why are the opening scenes of the James Bond movie Spectre misleading? What was the response of the Mexican government to these misleading scenes?

SA-2 In theory high interest rates should not work due moral hazard and adverse selection problems. Why does Sofia pay 100% interest rates again and again? Compartamos interest rates are among the highest in the world, does it benefit the poor (recall Sandefur’s 2015 summary of the J-PAL MFI studies?)

SA-5 One innovative approach used to assist victims of Disaster in Latin America the U.S. congress and the DHS extended TPS to families from Nicaragua, El Salvador, Honduras and Haiti (among others). Puerto Ricans are also welcome to migrate after natural disasters, because they are

SA-6 List four social innovations Latin America has contributed to world development economics? How can Bangladesh legitimately claim three two of these? Which of the four can they never take credit for?

SA-7 Drawing on the CEPAL survey of CCT programs, L&A text, explain how the first evaluations of Progresa (then Oportunidades now Prospera) selected households to form a control group. Why was this early evaluation important? CONAPO claims its deprivation measure was also one of the first Multi-Dimensional Poverty measures. Specifically, what characteristics were used to target Progesa payments? Do these characteristics suggest \$2 or \$4/day poverty rates?

SA-8 Reichman, 2014 argues Honduras is “dependent” on remittances because they are now almost 20% of GDP. Are remittances part of GDP or GNP? Where to they appear in the market for dollar diagrams. Suppose remittances decline sharply? Why does the effect of a surge or reduction in remittances depend on the exchange rate regime (compare El Salvador and Honduras for example).

SA-9 Most Latin American countries are closer to the equator than the United States what does this imply about the impact of climate change? What does the Paris accord do for developing countries that the Rio and Copenhagen agreements did not? Why did this happen automatically for Puerto Rico (and to a lesser extent for Haiti

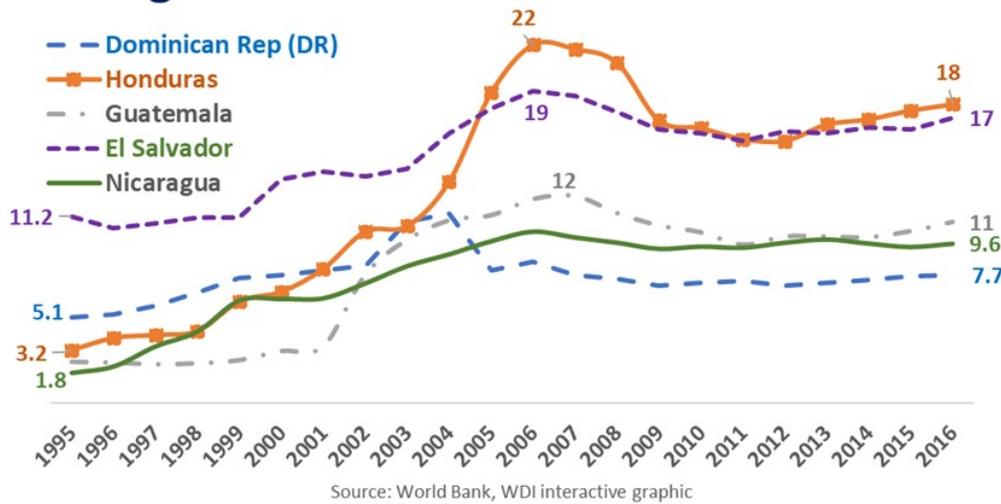
SA-10: How did UNDP help Haiti “build back better” after Hurricane Mathew in 2016. Draw parallels with Puerto Rico, how long did recovery take?

SA-11 Is the Roy, 1951 argues boys have a brains vs. brawn advantage in some strength intensive industries (Agriculture for example). In Colombia for example garment exports may favor women, while coffee exports favor men’s

employment. How does differential rates of progress tend to increase the gender gap in schooling? *Both Brazil and Honduras for example have made some progress in Agriculture and garment (HND) or shoe exports (Brazil).*

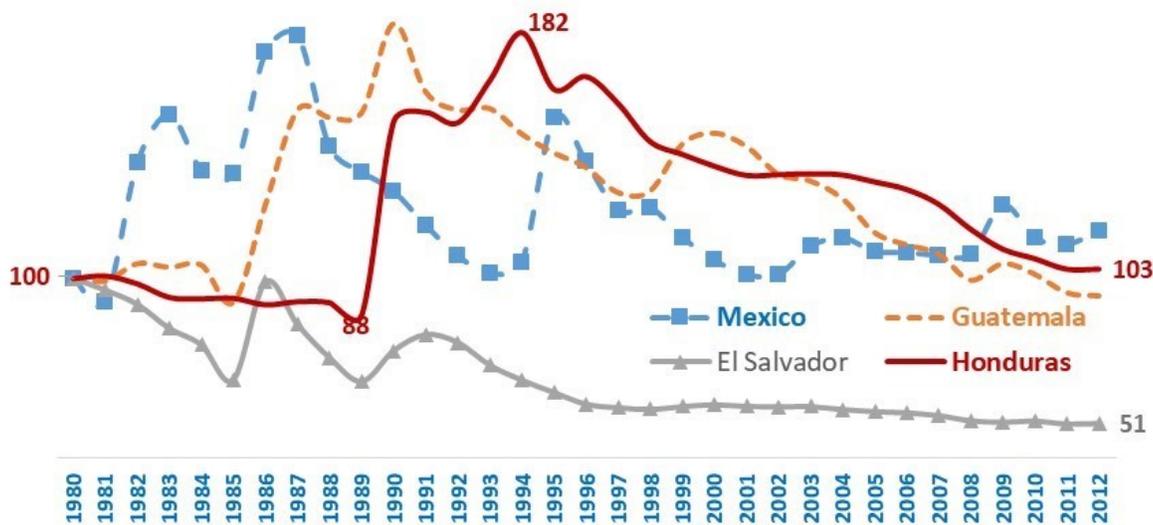
SA-12 A) *Are the loans shown see on KIVA or Whole Planet real? How did Professor Roy find the picture of Felicitia? Who took the picture? Initially she thought the picture and the flyer was a scam, what changed her mind? Who actually made the loan to Felicitia? B) Is the Bangladesh Consensus coming to LatAm? Provide some evidence from the text (see Section 5.8.1) In terms of micro-finance discuss how the two regions have moved together? How do their workhorse MFI models remain different? Grameen, Compartamos, MiBanco and ADOPEM have become real banks? Is this good or bad? What does Ananya Roy mean but the private and public transcript about MFIs in Bangladesh? (and everywhere, actually...consider KIVA and Whole Planet...).*

**Figure R-7 CAFTA-DR Remittances**



**Figure R-3: Real Exchange Rate for CAFTA-NAFTA Countries**

Source: USDA 8-29-2017 1980 = 100



Lecture notes for review: [Ending Inflation](#) [Stabilization Policy Handout](#) [Tables from Calvo and Vegh, 1994](#)

Figure 1

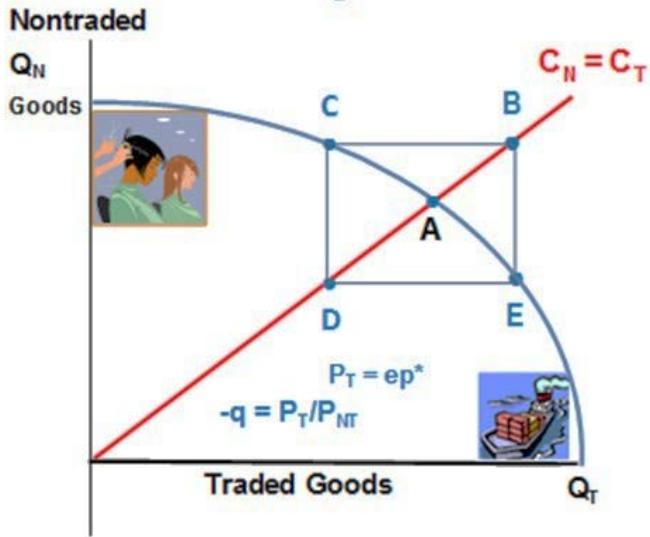
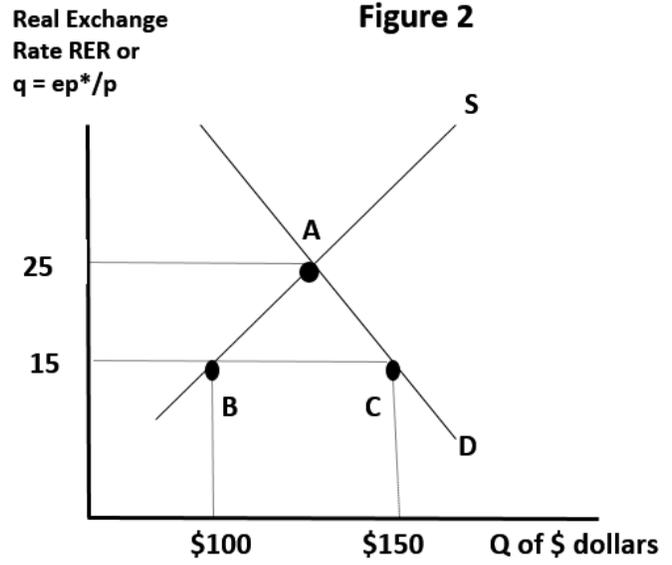


Figure 2



# CNN Day of the Dead parade -- life imitates art

Chris Scott, CNN • Updated 28th October 2016 <http://www.cnn.com/travel/article/mexico-city-day-of-the-day-parade/index.html>

*Editor's Note — This story was originally published in October 2016.*

(CNN) — As the screen fades from black following the most iconic of movie soundtracks, a giant skeleton emerges, a cigar gripped in its jaws. The streets are awash with color, spectacular costumes, masks, floats and flowers as the camera pans through the streets of Mexico City's Dia de los Muertos parade.

For those who've seen the James Bond movie "Spectre," you may have thought you were watching a traditional Mexican celebration. But no, you were in fact watching a lie. A work of fiction created for the movie. There is no parade and there never has been.

However, such was the interest in the film and the Day of the Dead parade itself, it's forced the government of Mexico to think again and turn that fiction into reality.

## Life imitates art

On Saturday, October 29, Mexico City will host its first ever Dia de los Muertos (Day of the Dead) moving parade. It's an event Mexico hopes will eventually rival the Carnival of Brazil.

The parade begins at 3 p.m. Mexico Central Time at the Angel of Independence and will end in the Zócalo, the city's main square. It'll last three to four hours and an estimated 150,000 or up to one million people are expected to watch the parade along its 3.5-kilometer route.

Alejandra González Anaya, one of the parade's creative directors, explained to CNN why Mexico have decided now is the time to put on such a show.

"As a result of the James Bond film we have decided to take advantage of the spotlight and put on the streets a great offering which we give to our dead," she says. "I think it's an opportunity for all Mexicans to show the world what the tradition is made of." 10 things Mexico does better than anywhere else

## Celebration of life











2/11

The problem was, Mexico City didn't have a giant Dia de los Muertos parade. Now, inspired by the movie, they're holding one.

Courtesy VisitMexico.com

The Day of the Dead celebration dates back to Aztec and pre-Columbian times. It's a celebration of life and teaches people not to be afraid of death, but to enjoy and take advantage of every moment.

The festival's also a chance to honor the dead. It's traditionally celebrated on November 1 and November 2 when Mexicans believe the gates of the afterlife are opened and their loved ones who have passed on return to join in the festivities.

"It is a tribute for all the people that have passed by this world," explains González Anaya.

"We expect our dead to come back for just one night so we prepare their favorite drinks, their bread and their objects for them.

"At this moment Mexico is preparing a big party and creating a huge celebration with a new format in the city so the world can have a better look, a better window into who we are and to show one of the most important celebrations of our culture."

The parade will be split into three parts: the pre-Columbian era where the celebration was born and created; the Colonial and Mestizo era; and the modern era that we have to come to know the celebration as today.

[10 things you probably didn't know about Mexico City](#)

**1,200 volunteers**



1200 volunteers have been preparing for Saturday's event.

Courtesy VisitMexico.com

"There are 1200 volunteers working for the parade alone," González Anaya says. "We have worked for a year on this project. Volunteers have been rehearsing for three weeks now, every night, to be ready for the parade.

"We have wonderful costumes, wonderful props and we've had the opportunity to revisit the "Spectre": James Bond props -- created by Mexican artisans -- from the movie which is great."

González Anaya and her team hope to create a new annual tradition to showcase Mexico to the world.

"Though the parade did not exist in this format, it did exist in content, in tradition and its looks. So it's wonderful to be able to rescue that and bring it to a new format and a new tradition for Mexicans.

"We're really trying to find a new brand, a new identity, rescuing the old and creating another option for the world to be able to come to our country rather than take a trip to the carnival of Rio or the carnival of Venice.

"Now there's also the Day of the Dead in Mexico. We want you all to come and know that it is a beautiful celebration, a beautiful party and a wonderful opportunity to know more about the beauty and depth of our culture.

"It's super-important for our country to be seen that we can be organized and peaceful to deliver something that can be respected and inspiring for the world."

<https://www.project-syndicate.org/commentary/mexican-paradox-economic-orthodoxy-low-productivity-by-santiago-levy-and-dani-rodrik-2017-08>

FER-Q2: Many LatAm economies fell behind the United States during the 1980s and 1990s due to a series of crises associated with debt and controlling inflation (and moving to more flexible exchange rate regimes). Following the NAFTA proposal in about 1990 capital flowed into Mexico leading to an appreciation (fall in the real exchange rate).