

EE452 International Monetary Economics

1. Payments among Nations Class Exercises

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Exercise 1

1. When countries have severe balance of payments difficulties caused by unsustainable current account deficits, they can approach the International Monetary Fund (IMF) for assistance. In providing financial assistance, the IMF generally insists that the country implement a series of policy changes designed to reduce the deficit. These programs are controversial as they tend to focus on demand reduction. **Explain why demand reduction would solve a current account deficit problem. Would a program designed to increase the nation's GDP growth rate be a method of reducing a current account deficit? Why or why not?**

Exercise 2

2. We often hear that trade deficits are bad for a country. **Do you agree or disagree with this viewpoint? Explain carefully.**

Exercise 3

3. Explain the three different viewpoints (meanings) of the current account balance. Discuss the macroeconomic interpretations of a current account deficit.