Hi class.

You guys did pretty well for the second assignment. I've seen a lot improvement in many of you; keep doing your good job. To me, most of you seem to have understood the main concepts well. If you did it yourself, this is a good sign for the exam.

I am sending to you some comments. They are problems that have commonly appeared in the writing of most of you. Sorry for the delay getting back to you all the feedbacks, but please read it through the end. As usual, the email is very long, so first things first.

I'll divide the comments into three parts - substantiate issue, writing style, and minor issues.

1) Substantiate issues;

1.1) Many don't seem to know the difference among the three things: "equilibrium "r" required for the zero BOP, global interest rate (rf), and interest rate required by global investors (rf+theta)" The problem might be because we didn't talk about the case with imperfect mobility, so we didn't have chance to talk about their differences.

Under perfect capital mobility, "r" must be equal to "rf+theta". Otherwise, KA will be either "positive" or "negative" infinite, and hence a disequilibrium in the BOP. Current accounts do not appear to matter because the size of current account is relatively small relative to the size of capital account. If there's a small change to the interest rate, capital account will change a lot and dominate every other items in the BOP, i.e. the current account.

Under imperfect capital mobility, there is no point in the discussion that would require "r" to be equal to "rf+theta" Under imperfect mobility (in both the cases with steep and flat slope), nothing requires that we must have a zero net capital flow while we achieve the zero balance of payments. Both current and capital account are fairly and equally important. It is possible that we have "negative capital inflow" but "zero" balance of payments if the current account surplus is sufficiently large enough. You see the point! Then, we may have r < rf+theta, but we still can have zero BOP. So, the fact that many argue for the surplus in BOP simply because "r" is rising (and explicitly stated that "r" is rising above the interest rate required by global investors "rf+theta") they are wrong.

1.2) When you do the analysis with the upward-sloping BOP, there will be two cases for the sleop – steep v.s. flat. One thing you don't seem to concern is the intuitive reason behind the difference in the slope, and the way that the underlying intuition might help you explaining the intuitive reason for the status of BOP after the tax cut. The slopes are different at the first place because of the two reasons that we discussed in class. (There are two reason that explain why the slope can be different; the Marginal to import and degree of capital mobility) Here's the starting point of incomplete analysis. Almost all of you just point to the figure and ask the reader to see that the internal equilibrium is below or above the BP, and "*mechanistically* (like a robot that gets programmed to respond to something in a predictable manner)" conclude about the status of BOP disequilibrium. Some provide intuitions, but only refer to the capital account (KA). They said "BOP will be surplus because the interest rate is higher. This induces a capital inflow." It turn out to be correct that you picked the case that fits to your story line – the flat BP. But wait a minute! Regardless to the slope, interest rate would always be higher if you use the expansionary fiscal policy. But, then why it is only surplus when BP is flatter than LM, not the other. This is the point that you don't seem to have clearly understood what's actually happening. (The first two essay clearly deliver this point in an effective manner.)

1.3) You don't seem to explain why the curve shift. As I always explained, intuition should come first. Figure and graphs are there to help following the concept easier; they are only to help conceptualize the underlying intuitions. You should explain why we have a shift in any curve. There're ways to give details of explanation in a precise and concise manner. You need to practice this. Always ask yourself why we shift this? Shift because of something. IS shifts because of tax cut, or because of an increase in disposable income and aggregate expenditure resulting from the tax cut? Most of you seem to do it well for the money supply story. But when it comes to the adjustment towards the general equilibrium, you appear to lost your track of explanation again.

2) Style of writing.

2.1) You need to design the format of your writing at the first place. As we are analyzing various cases, it might be a good way to start with the common theme of the analytical results first. Don't keep repetitively saying things over and over if it was clearly stated the beginning. Proceed with the point that you want to make the contract. Briefly refer to the common theme, and then explain the contrast. This is an effective way to make a concise academic essay. (To me, the third essay posted in the BE Moodle is a good example

2.2) word choice: I have no objective of your word choice. This is a matter of writing style. But, be sure that you use the word that is less confused. For example, people may have hard time to correctly understand what you actually mean by "exchange rate is falling". Is it the value of exchange rate quotation? Is it falling in the sense of losing the purchasing value? So, be sure you clearly explain what you mean by; this helps reading smoothly.

2.3) Avoid run-on sentence. Don't write too long sentence. IF possible, always split the sentence into two. Whenever it's longer than three lines, that's the sign. Moreover, always put full stop to the end of each sentence. Sometimes, I don't know where the end of your sentence is.