

ECO 103, Winter 2021, Final Required Homework Assignment
Due by the start of class on Tuesday, May 11

This assignment asks you to investigate issues surrounding fiscal policy beyond the United States.

1. ($\frac{1}{3}$ of the grade): When completing the assignment, satisfy all of the following:
 - i. Include your name, date, and a title.
 - ii. For in-person students, submit a stapled, non-handwritten hard copy. For remote students, email a pdf or .doc file, not a Google Doc.
 - iii. Provide at least one citation as part of your answers. Choose a source beyond those provided in this assignment. Here are some [sample references](#) based on the *Chicago Manual of Style*.
 - iv. Embed your graph in your document. Do not email it as a separate attachment.

For most questions, one or two concise paragraphs is all that I am looking for.

Briefly research the Latin American Debt Crisis of the 1980s Here is an [article](#) from the Fed to get you started.¹

2. Why did many Latin American countries end up defaulting on their debt in the 1980s?
3. What is meant by “international lender of last resort,” and how does it relate to this crisis?
4. When Mexico defaulted in 1982, how did its sovereign debt level compare to the current U.S. Federal debt?
5. Why did this crisis lead to recession for many afflicted countries?

¹Sims, J. and J. Romero. 11/22/2013. “Latin American Debt Crisis of the 1980s.” *Federal Reserve History*

The next several questions ask about the European Sovereign Debt Crisis. This [article](#) compares the European crisis with the Latin American Crisis.² Here is a [longer and more scholarly](#) article (it is not technical).³

6. What is the difference between public and private debt?

7. Which European countries were hardest hit by the European crisis and why?

8. True or False? Greece eventually defaulted on part of its debt and its unemployment rate is yet to fully recover.

[This page](#) provides you with some data from the OECD on countries' GDP per capita and sovereign debt to GDP.

9. Using a spreadsheet program (*e.g.* Excel), make a scatterplot. Add a trendline.

10. Your trendline should be downward sloping. In statistics, this indicates that there is a negative *correlation* between debt and GDP. We tend to see higher GDP in countries with less debt and vice-versa. Can you provide a reason why low debt *could* cause higher GDP.

11. You have probably heard the adage "correlation does not imply causation." Suppose that low debt *does not* cause GDP. Can you think of a reason why richer countries might tend to have lower levels of debt?

Bonus. Whether low debt does cause higher income is a question for the data. Can you cite a study that attempts to answer this question? What does it find?

²Restrepo-Echavarria, P. January 2015. "Sovereign Debt Crisis in Europe Recalls the Lost Decade in Latin America." *Federal Reserve Bank of St. Louis, Regional History*.

³Lane, P. 2012. "The European Sovereign Debt Crisis." *Journal of Economic Perspectives*, Vol. 26(3): 49-68.