

ECON 161: Economic Issues in Latin America  
Assignment 2.

Out: November 13, 2003. Due: November 21, 2003, 2:30PM, 245 Sequoyah Hall.

1. (10 points) Discuss the relative merits of a fixed-exchange rate that is managed by the central bank versus a monetary arrangement such as a currency board or full dollarization. How does your answer depend on the history of the particular country? (Your essay should be no more than 500 words.)
2. Download the real-exchange rate data from the e-reserves for the course. Using the data given, consider the following questions.
  - (a) (10 points) Graph the series and label the following events:
    - for Argentina, the beginning and end of “convertibility”;
    - for Ecuador, the banking crisis and subsequent full dollarization;
    - for Mexico, the “Tequila” crisis and also indicate which exchange-rate regimes prevailed in which time period;
    - for Brazil, indicate which exchange-rate regimes prevailed over which time period.

Be sure to indicate your sources.

- (b) (5 points) Explain why a trade-weighted real-exchange rate might be more informative than one based on relative prices in the US.
- (c) (5 points) Conceptually, what does Ecuador’s adoption of the dollar have in common with Argentina’s policy of convertibility? Again, based on these data, should we expect that Ecuador is headed for a similar disaster?