

## NATIONAL AND INTERNATIONAL ECONOMICS MBA 618/2 AA

### ASSIGNMENT 1

In order to complete this assignment you will need to investigate current economic conditions in Canada. There is a link to the Statistics Canada Daily page on the website, as well as a copy of international economic indicators from a recent issue of The Economist magazine. The Bank of Canada also has data on interest and exchange rates which you can Google. Sometimes if you do a straight Google of specific Canadian indicators you can find reliable sites and data as well.

#### Question 1:

- (a) Using the data, briefly (in one paragraph) compare the most recent economic conditions in Canada to those of the United States. Include the national Unemployment Rate, the latest figures for annual Real GDP growth, the annual % change in the Consumer Price Index, the latest monthly data on our Trade Balance and/or Current Account balance (which is what we mean by X-M in your AE and IS/LM models). The Exchange Rate between the C\$ and the U.S. \$, interest rates (use the 3-month Treasury Bill rate), the Federal Budget deficit, and any other data you think is necessary.
- (b) Assume that in both Canada and the United States policymakers want to lower the unemployment rate. Using AE and IS-LM analysis prescribe two different FISCAL policy options for Canada (use both Government spending and taxes). How would these policies affect the slope and position of the AE, IS and LM curves? The multiplier? What would happen to interest rates, employment, the composition of output, the government budget, the balance of trade or current account (X-M) and the exchange rate as a result of these policies? What would happen to your entire scenario if the marginal propensity to consume became smaller (perhaps due to a drop in consumer confidence)?

#### Question 2:

Read “Changes in the Business Cycle” from your readings. Then write a brief paragraph illuminating the following points: How do we identify recessions and expansions? What are some of the problems in identifying peaks and troughs in the business cycle? What is more significant about recessions - their depth or their duration? Why? How do we know how severe a recession has been? Describe 3 reasons why comparing the business cycle over long time spans is difficult. What are the important policy implications given what we now know about the nature of the business cycle?

#### Question 3:

Read “The Mortgage Meltdown, Financial Markets and the Economy”. Then write a brief paragraph illuminating the following points:

How did changes in housing prices contribute to the recession of 2008? What aspects of the financial system contributed to the depth of the recession? How did government policy, attempt to address the recession? Which proposals for policy were made at the time the article was written?