Economics 341                                              Fall 2016
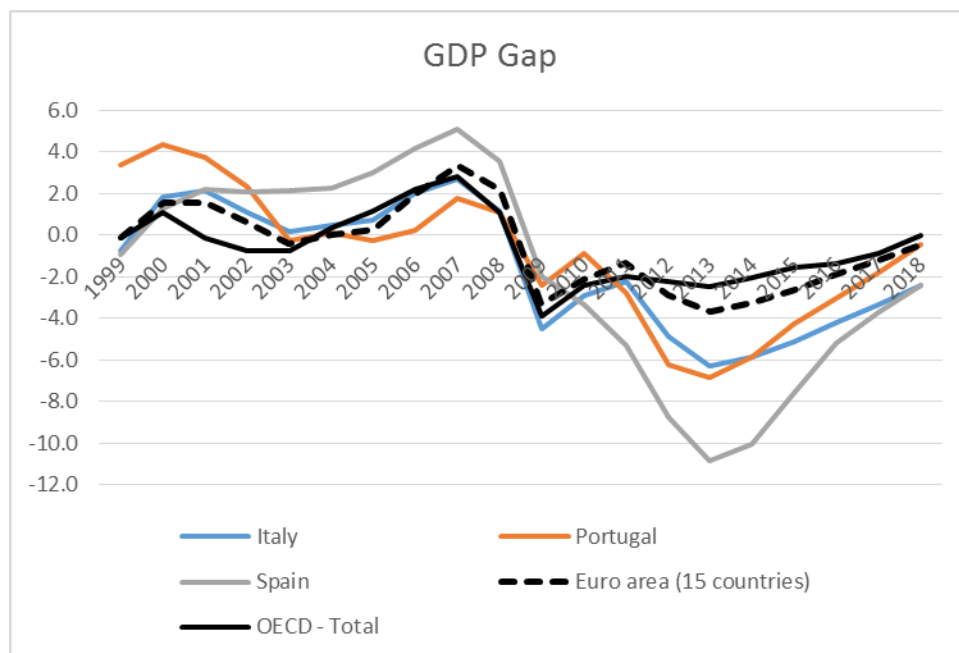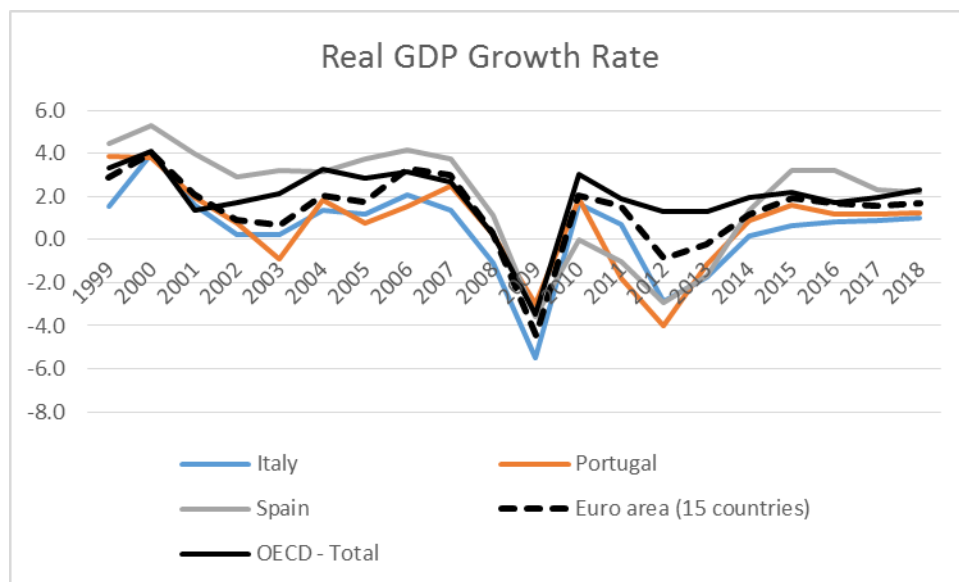Final Essay Assignment                      Due: 8am, December 14

The final essay assignment asks you to recommend monetary and fiscal policy for one of three countries—Spain, Portugal, or Italy—under the counterfactual assumption that the country had its own currency rather than being part of the Eurozone. (In the case of Italy, you may neglect the impact of the recent referendum and base your policy on conditions as of December 1, 2016.) You should start from the baseline monetary policy of the European Central Bank in recommending policy changes, even though those changes will (in your analysis) apply only to your country.

Your response should be a short document with two clear decisions: (1) tighten, loosen, or maintain the monetary-policy position (interest rate target and/or quantitative easing position) and (2) tighten, loosen, or maintain the fiscal-policy position. Your decisions should be supported by macroeconomic analysis using the data provided (and any other data you may wish to track down). You may recommend, but should not assume, changes in structural policies such as labor-market regulation, trade policies, banking reforms, etc.
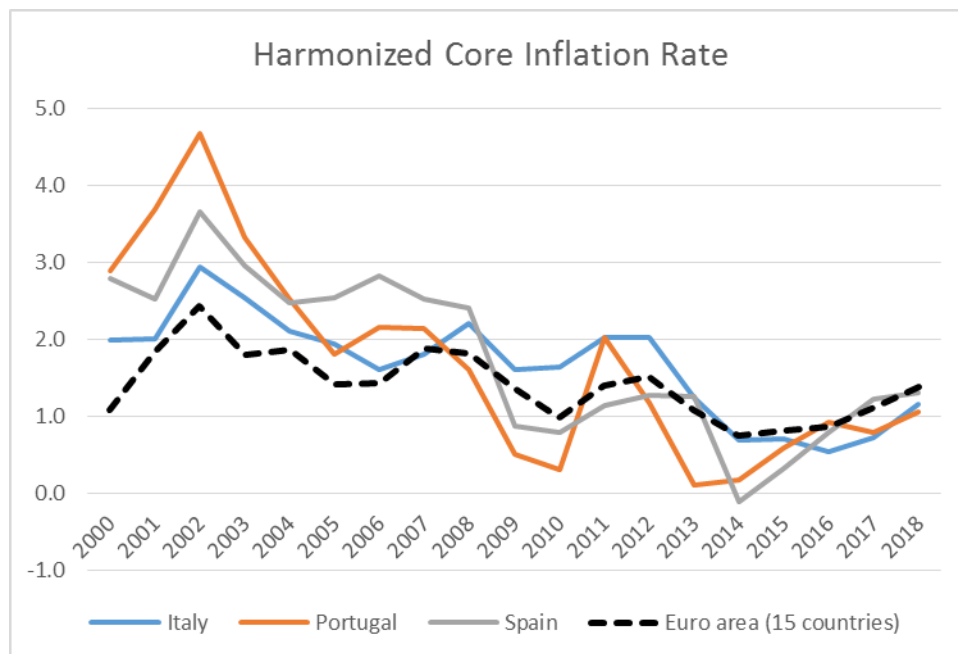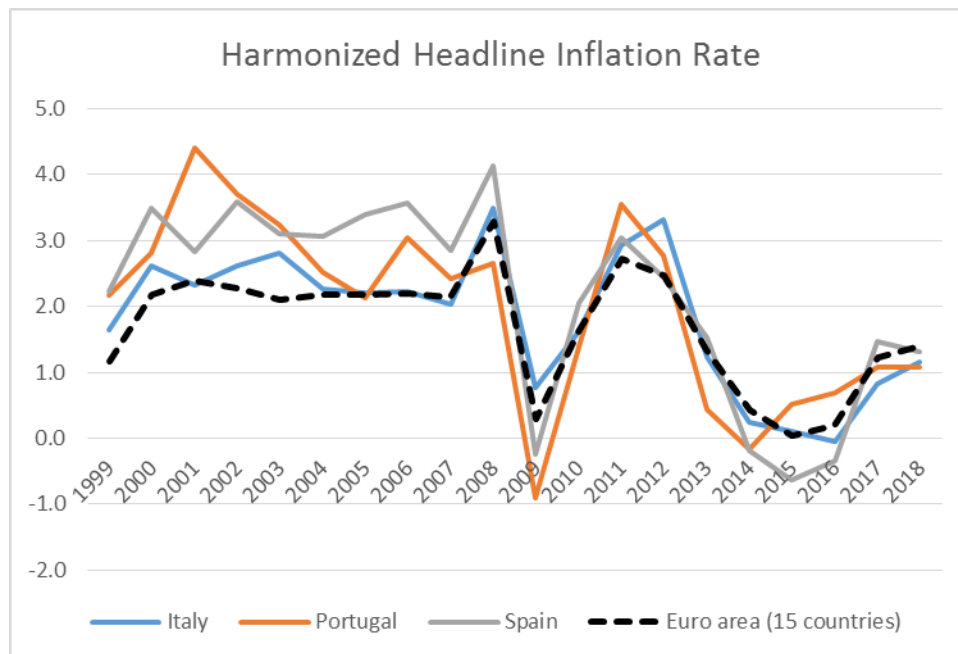
Send your responses to me as a Word or pdf document prior to the final examination period on Wednesday, December 14.

All of the data below are from the OECD database, which you can access from on campus by clicking the "Statistics" tab at http://www.oecd-ilibrary.org/. There are many specialized datasets within the OECD site. The data below are from the OECD Economic Outlook overview, which includes forecasts for 2016, 2017, and 2018. In cases where no aggregates are reported for the total OECD or Euro Area, they are not available.
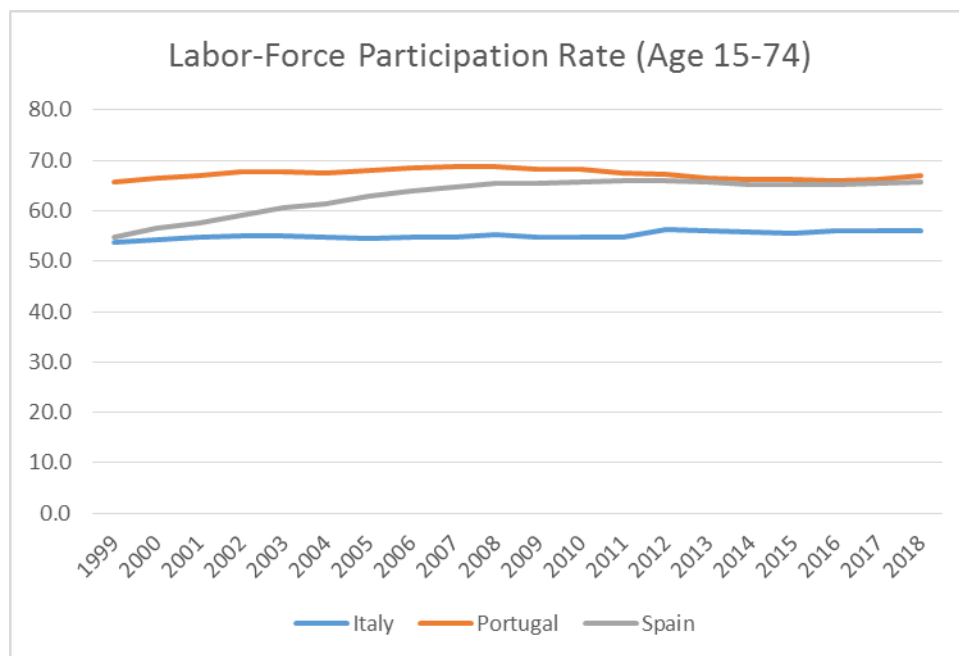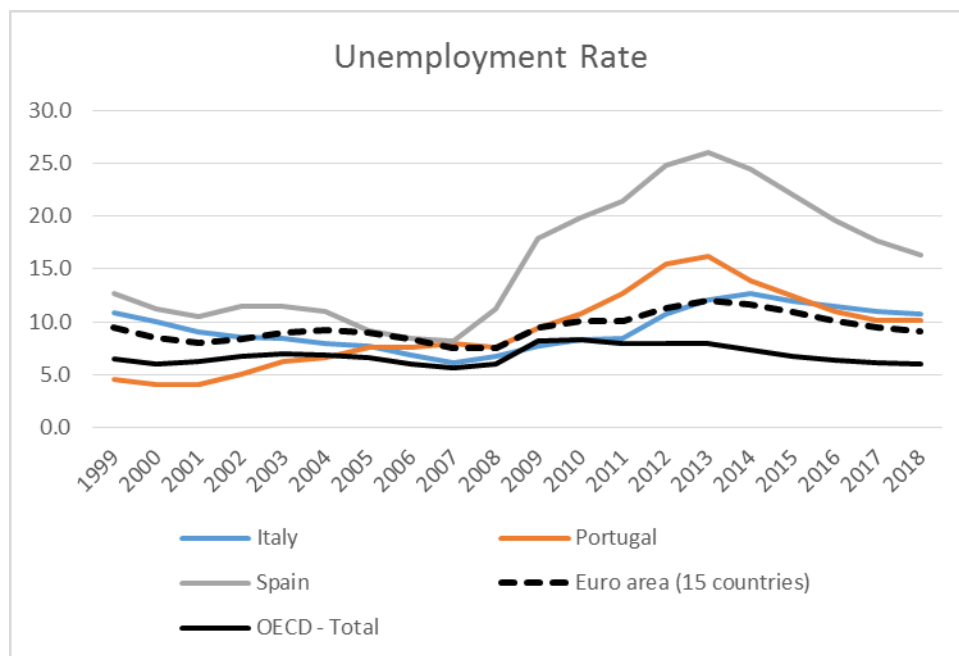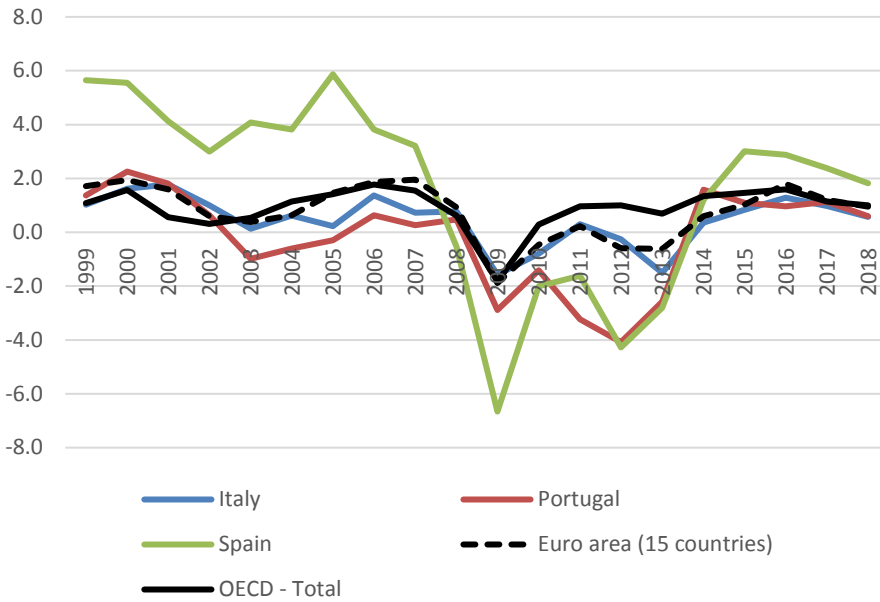
# GDP

## Real GDP Growth Rate
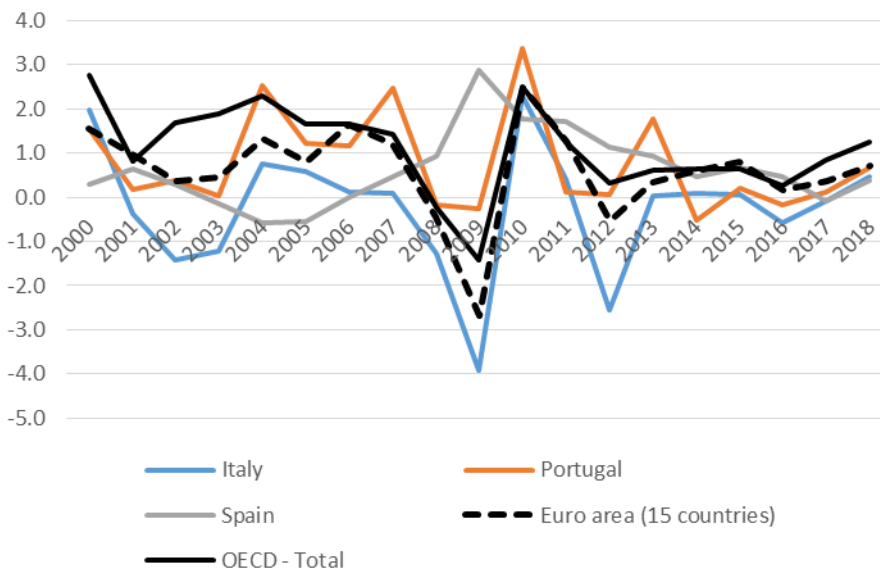


Legend: Italy, Portugal, Spain, Euro area (15 countries), OECD - Total

## GDP Gap



Legend: Italy, Portugal, Spain, Euro area (15 countries), OECD - Total

*Inflation*



Harmonized Headline Inflation Rate



Harmonized Core Inflation Rate

*Labor Markets*

**Unemployment Rate**



Legend:
- Italy
- Portugal
- Spain
- Euro area (15 countries)
- OECD - Total

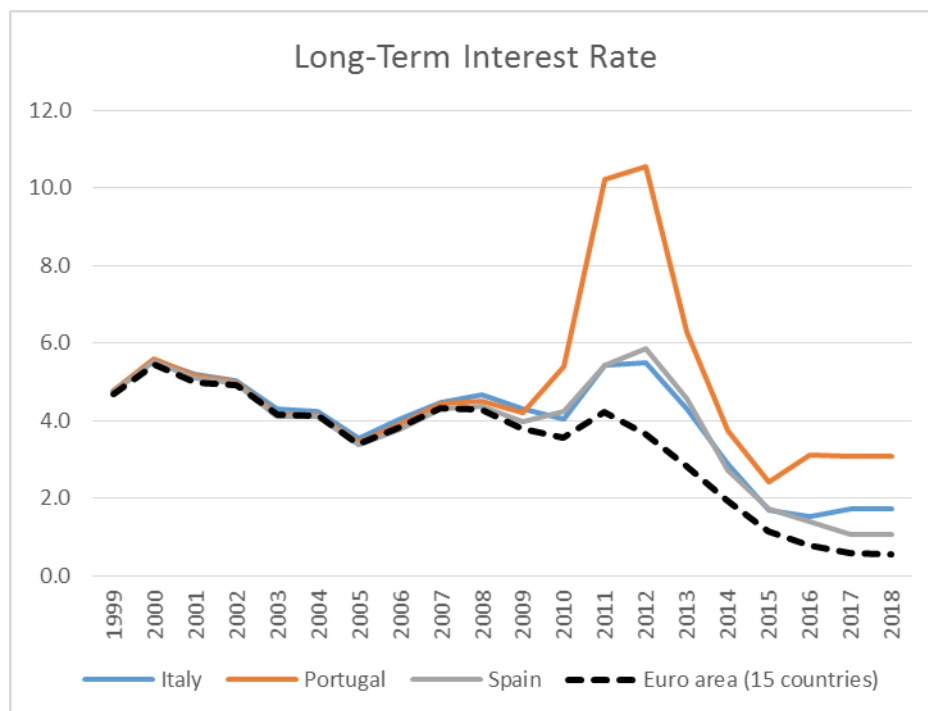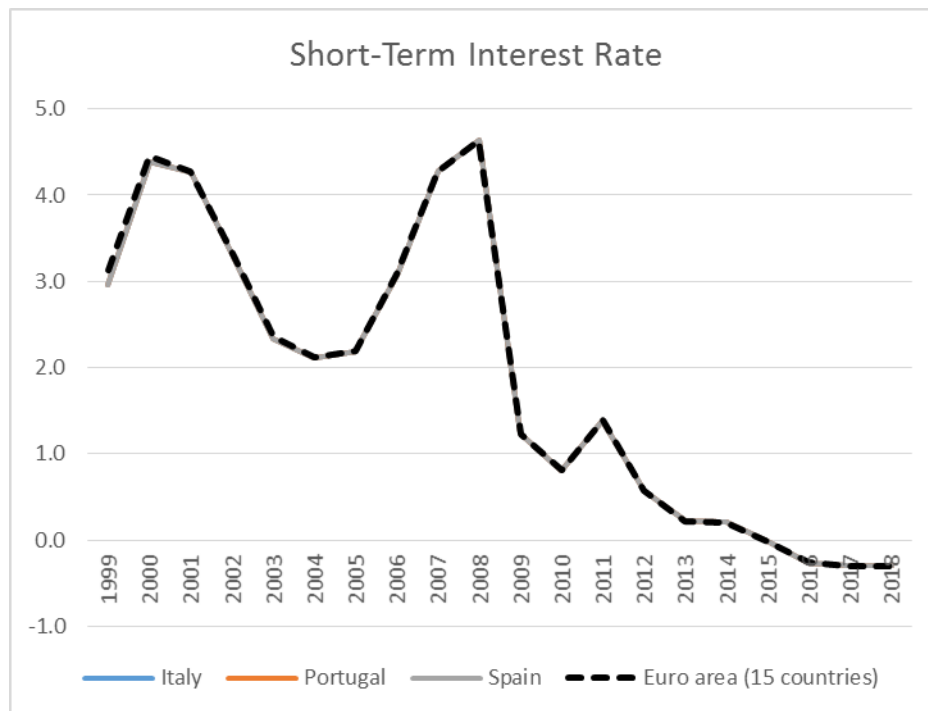**Labor-Force Participation Rate (Age 15-74)**



Legend:
- Italy
- Portugal
- Spain

## Total Employment Growth



## Labor Productivity Growth

*Interest Rates*



Short-Term Interest Rate

— Italy — Portugal — Spain ---- Euro area (15 countries)



Long-Term Interest Rate

— Italy — Portugal — Spain ---- Euro area (15 countries)

*Government Budgetary Information*

### General Government Net Financial Liabilities (% of GDP)



Legend: Italy, Portugal, Spain, Euro area (15 countries), OECD - Total

### Government Net Lending (% of GDP)



Legend: Italy, Portugal, Spain, Euro area (15 countries), OECD - Total
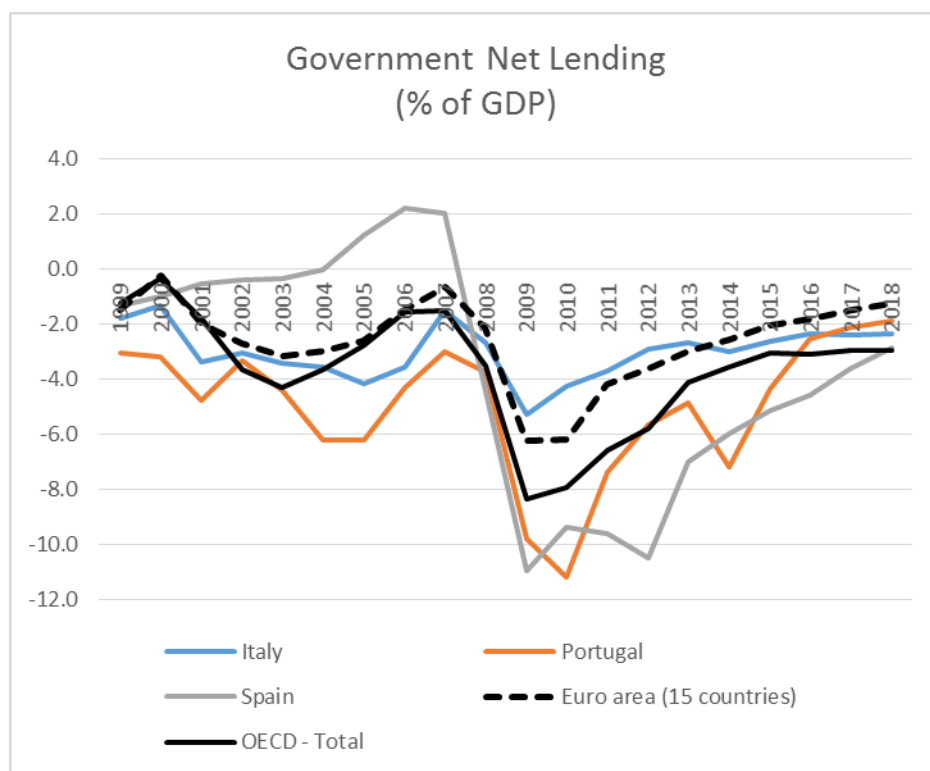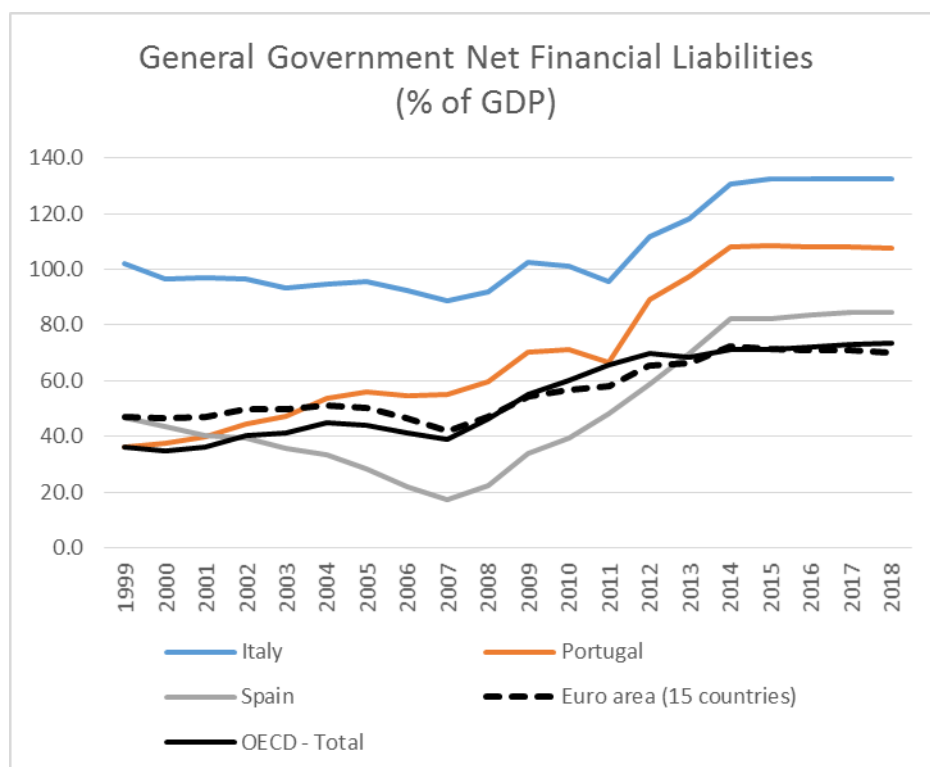
Government Primary Budget Surplus
(% of GDP)

Legend: Italy, Portugal, Spain, Euro area (15 countries), OECD - Total
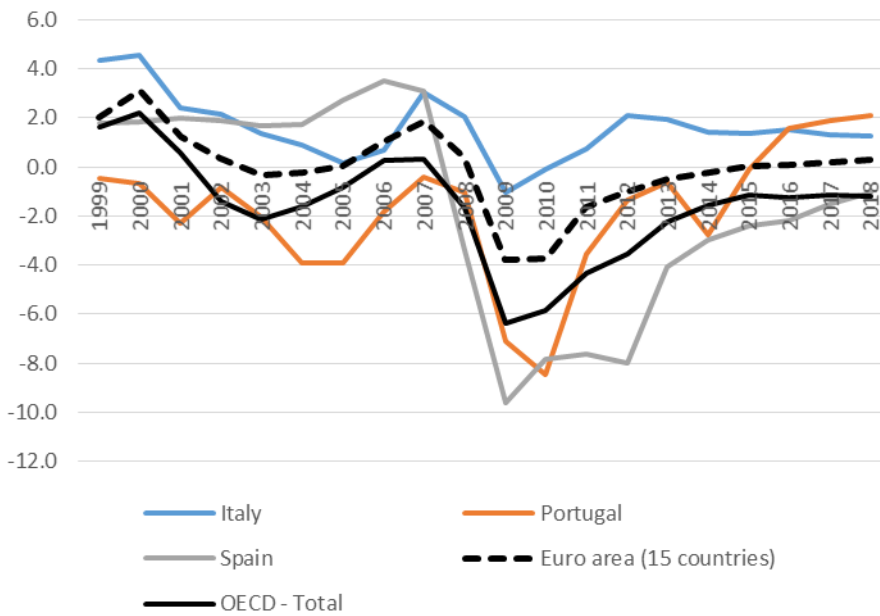


Cyclically Adjusted Government Net Lending
(% of GDP)

Legend: Italy, Portugal, Spain, Euro area (15 countries), OECD - Total

General Government Disbursements
(% of GDP)

Italy • Portugal • Spain • Euro area (15 countries) • OECD - Total



General Government Receipts
(% of GDP)

Italy • Portugal • Spain • Euro area (15 countries) • OECD - Total

*Foreign Sector*

## Current Account Balance (% of GDP)



Legend: Italy, Portugal, Spain, Euro area (15 countries), OECD - Total

## Real Effective Exchange Rate



Legend: Italy, Portugal, Spain