

Introduction

In this part of the project you will write an introduction to your country's macroeconomy. There is no formal expectation of length, which will depend on the nature of your country as well as your writing style. What is important is that you cover the essential characteristics and historical events that define your country's economy. This may take 5–10 pages or 15–25, depending on your country.

A classmate reading your introduction should understand the main features of the macroeconomy and the relevant history since World War II. The list below should be viewed as a minimum list of characteristics you should describe. Many countries will have other features of sufficient importance to warrant your attention.

This report will serve as the introduction of your final document, but you should expect to edit it substantially as you learn more about your country throughout the semester.

Describing the structural and institutional characteristics

Important characteristics you should describe include:

- Structure of GDP
 - What is the balance among major sectors: agriculture, mining, manufacturing services, etc.? What are the most important industries? How capital-intensive is the economy?
 - What is the level of per-capita GDP and how does it rank among the world's economies?
- Monetary system
 - Is inflation high or low in the country?
 - Does the country have its own currency (and what is it) or is it part of a currency union? Is the currency pegged to a foreign currency? How often is the peg changed?
 - If the country has its own currency, what is the central bank and how does it work? How are the governors selected, do they have a defined target, are central-bank policy decisions independent of political oversight?
 - What is the structure of the banking system? Are banks state-owned or private? Is the system dominated by large banks or are there mostly small ones? Are the largest banks domestically owned or foreign? What are the rules about reserve-holding? What are the broad outlines of bank regulation in the country?

- How do the banks interact with the central bank? What assets does the central bank hold (bank loans, foreign currencies, government securities, other assets)?
- How does the central bank conduct monetary policy? Does it target an interest rate, the money supply, the exchange rate, or something else? Does it conduct open-market operations? What is the mechanism for these?
- Foreign trade
 - What is the exchange-rate regime: fixed, floating, or some combination?
 - Is the country quite open or relatively closed? What are the major exports and imports? Who are the major trading partners?
 - Are there large surpluses or deficits on the current or capital accounts?
- Labor market
 - Is the unemployment rate high or low? What are the patterns of unemployment and labor-force participation across demographic groups and/or geographic sub-regions?
 - What is the legal structure of the labor market? How generous are unemployment-insurance benefits? Is there a minimum wage? Is the economy heavily unionized? Are there “employment-protection” restrictions on employers?
 - Is the labor market highly flexible? How large are the flows of hiring and separations relative to the size of the labor market? Are wage negotiations collective or disaggregated?
- Fiscal policy and government finance
 - How large are the government’s debt and budget deficit relative to GDP? Does the government borrow in its own currency? How large is the risk premium in the interest rates on government debt?
 - Has the government been aggressive in using fiscal policy since 2008? If so, has it focused on spending or taxes?
 - What is the balance of government spending between the central government and regional or local governments? What are the major categories of spending? What are the major taxes used to support spending?

Outline of the country’s macroeconomic history

In addition to describing the current structural characteristics of the economy, you should explain when and how *major* changes in the above characteristics occurred since 1950 (or a later date at which it is reasonable to start the analysis for your country).

You should identify large recessions, periods of extreme inflation, financial crises, and any other severe problems the economy has encountered. How did the economy behave during major global episodes such as the oil shocks of the 1970s, the global recession of the early 1980s, and the financial crisis after 2007?

Major institutional reforms or changes in the policy regime or the economic structure should also be discussed. Did the country join any international organizations such as the European Union, the WTO, or NAFTA during your sample?

You will be collecting and analyzing historical data for your country in subsequent assignments, so you do not need to describe minor or gradual historical changes. The purpose of this assignment is to provide a historical skeleton to use in interpreting the data. For example, major structural or institutional changes may demarcate points at which you could divide the sample to assess how behavior may have changed in response to events.

A graphic or tabular timeline of major events and structural changes might be useful.

Research strategies

The abundance and location of information will vary enormously across economies. The resources discussed in the previous assignment will all be useful in preparing this one. The surveys from the OECD and IMF are particularly appropriate for this purpose.

There are many thousands of pages written on every major macroeconomy. You don't need to read all of them in order to complete this assignment! Just read enough to have the required basic knowledge of your economy. You only have a couple of weeks, so read efficiently; don't waste time reading the same information over and over from multiple sources.

If I were doing this assignment, I would start by assembling a broad set of sources from books, surveys, *Economist* articles, and journal articles. I would start reading with OECD or IMF surveys as they tend to be broad and focus on the kinds of issues that you should examine. Most importantly, I would compile a topically organized electronic log (e.g., Word file) into which I would type or copy/paste useful information (with careful citations) as I find it. My report would emerge from this electronic log.

As you read additional sources, you'll find that there is a lot of repetition. When this happens, skim the new document to see if there is anything new and different from what you've already read. If so, add it to your log. Otherwise move on to the next document. After extracting the useful contents of a few sources into your log, you will be able to identify the gaps in your knowledge by comparing your log entries to the above list of economic characteristics. These gaps are where you should focus your subsequent research.