

## PUBPOL556 Course Group Project

The goal of this final project is for you to have an opportunity both to synthesize the topics we cover in this course and to use the tools you have learned to analyze a particular macroeconomic policy problem. In order to do this you will choose data to look at and assess the macroeconomic problems facing a particular country and make recommendations for policies that should be pursued to address these problems. This handout will give you more specific information on how to approach this project and what is expected of you.

In general, all countries face macroeconomic problems at some times, but different countries confront different problems at different times. One country may have a substantial and persistent budget deficit problem while another has deficits under control but has faced high unemployment for several years in a row. Yet another country may have very high inflation as well as high unemployment. And even these issues are clearly not exhaustive of the macroeconomic issues facing many countries today. To this point in the course we have discussed the classical (long-run) model, explanations for short-run economic fluctuations (changes in real output and prices and unemployment) and economic growth. In the coming weeks we will focus on models that help us better understand some of the macroeconomic issues that arise for developing countries.

This project is purposely somewhat open-ended since I want you to spend time thinking about which problem(s) to focus on. Some of you may want to write papers on a “topic” rather than a “country.” This is fine as long as you receive my approval first, AND as long as the “topic” is in the context of a country analysis. For example, you may want to explore the implications of persistent high budget deficits. You can do this in the context of a country analysis where the major problem you choose to focus on is the budget deficit. However, this project is NOT a research paper. The bulk of the analysis (other than basic data collection) should be your analysis of the macroeconomic situation. The following are specific guidelines that should help you get started.

1. **GROUPS:** This project is specifically assigned to be done in groups. It is in the nature of the assignment that you will need to think both individually and in groups where you will discuss and debate what issues to focus on, how to interpret the data, and what should be done in terms of policy actions. Groups should contain 2-4 people. One person from your group should be designated to give me a list of who is in your group.
2. **COUNTRY:** Each group will analyze one country. I generally recommend not using the U.S., but if your group wants to you must receive my approval first. As soon as your group is formed you should start discussing what country you would like to work on. Clearly, the sooner you choose the country and let me know (which you should definitely do before you get too far along in case I foresee a problem), the sooner you can get to the interesting part of this assignment. There are some countries you may want to choose which are problematic (for example, China's "official" statistics reported by the government are not necessarily reflective of the actual current conditions). For this reason I will want to know what country you want to work on to avoid any such problems later in the project.

3. **DATA SOURCES:** Since you will need to get recent macroeconomic data in order to see what has been going on recently in your chosen country and to see what policies have been tried and which have worked and have not worked, I am providing here a list of easily accessible (i.e., in Foster or the B-school library) data sources that I recommend you try. Of course, feel free to look on the World Wide Web for additional sources. I provide this list only to limit the amount of time you need to spend finding data. If you cannot find what you are looking for in these sources, please see me quickly. In particular, in the process of choosing your country, one member of your group might try looking briefly in these sources to make sure your country appears and that recent data on key economic variables are available.

- a. International Financial Statistics, published by the IMF
- b. World Tables, published by the World Bank
- c. OECD Main Economic Indicators, published by the OECD
- d. OECD National Accounts, published by the OECD

Each of these sources comes out either monthly or annually. Note that data from some countries is not published very quickly, so you may find that the most recent data available are from two or three years ago, rather than this year. If this is the case, then you can proceed through the project, but just recognizing that your analysis is for the state of the economy for the time for which you have data. Just make this explicit in your write-up.

Whether your data are from last year or from 2-3 years ago, you will probably want to look back a few years previous to the most recent data you get, in order to put the recent situation into some context. You should not need to get data for more than a few years before your most recent data, and each of these publications is published each year, so historical data are easily available.

What should you look for in these sources? You want to look at many of the types of macroeconomic variables we have talked about in the course, for starters. Once you have made some progress in identifying problems in this particular country, you may want to look for a bit more detail in some areas, but look broadly at first (GDP, interest rate, exchange rate, price level or inflation, unemployment rate, money supply, government spending, etc.). All such data should be easily available in one or more of the above sources.

Two cautions to keep in mind:

1. GDP grows over time, even when the economy is not performing particularly well. This is why we typically look at GDP relative to trend or potential. For most countries, however, you will not have "trend" data, and I certainly do not expect you to be estimating full employment output in the process of this project. Since population growth is one of the reasons GDP might grow over time, you may find it helpful to look at GDP divided by population ("GDP per capita"), to get a slightly better sense of how the economy is doing. This still includes some growth of technology, but is worth comparing to plain GDP, at least. Also, if you look over several years of data, you will probably be able to get a sense of how the economy has been performing recently relative to 5 years ago. In the U.S., for example, even if you did not have

trend data, you could see that real GDP was growing more slowly in 2004 than it did 5 or so years earlier, but faster than 3 years earlier.

2. Remember that because prices change over time, you will need to look at real variables. If the money supply rises and you want to see if that means the LM curve has shifted, you should "deflate" that money supply number by a price index to get the real money supply and see whether that has risen. (Recall that nominal/price=real). The same goes for fiscal policy indicators like government spending or tax revenue. There are clearly some complex issues about which price index to use, but the "GDP deflator" is fine for most anything you will be looking at. The GDP deflator is a price index for GDP, which is an index that equals 1.00 in the base year (if you see it reported as equal to 100 in the base year, divide the reported numbers by 100), and then increases as prices go up, and falls as prices fall. Alternatively, the Consumer Price Index can also be used. If the GDP deflator and CPI behave very differently, you may want to come talk with me about which to use.

4. **OTHER SOURCES:** I do not expect this to be a research project in the traditional sense that you would use outside sources. I want you to get the data and think about the macroeconomic problems and propose policies. I do not want you to research other people's opinions on the state of this particular economy. Of course, if in the process of working on the project you read something relevant in the newspaper, you may want to incorporate it. If so, you **MUST** cite the reference. The only things you do not need to cite are your class notes and the textbook. You should cite your data sources. The most common mistake made on this project is to use external sources too much. I want the project to reflect your group's analysis of the data you look at, rather than external writings. Of course, if this is a country you are very familiar with, there will be information you may want to incorporate from personal knowledge. However, keep in mind that you will be graded primarily on your analysis and the strength of the arguments you make.
5. **THE ASSIGNMENT:** The result of your analysis should be a single paper for your entire group that should be no more than 5 single-spaced typed pages. Tables and diagrams are not included in the 5-page limit. In particular, your write-up should include the following:
  - a. recent macroeconomic performance (what data you looked at and what you found)
  - b. assessment of highest priority macroeconomic problem or problems
  - c. recommendation of policy or policies to pursue in order to address these problems
  - d. discussion of the limitations of these policies.

Clearly a complete analysis of the macroeconomy of a particular country would require much more than 5 pages and a few weeks of work. For that reason, your focus should be somewhat narrow here as you address only one or a few issues in the economy. Your analysis must, however, be internally consistent in the sense that if you are looking at a country in a fixed exchange rate regime, and you propose expansionary monetary policy, you must acknowledge what the problem with that proposal will be. You should refer to particular models that you are using in assessing the recent performance or policies and making recommendations. You can assume that the reader (me) knows the material we have covered in this course, so when you

refer to a particular model, you most certainly do not need to (and should not) use any of your 5 pages to present this model.

The assignment due date is on the course syllabus. Late projects will be very heavily penalized. Remember that this project counts for 20% of your grade, so a late penalty can be damaging. Your group will receive a single grade on this project. If at any time you or members of your group feel that this is going to be a serious problem because one member of the group is not fulfilling his or her obligations, you should come see me.

Finally, I hope you find this project both educational and enjoyable. I hope you will find this project a valuable way to tie together some of the issues we have talked about in the class and see that the tools we have learned are useful for practical policy analysis.

Note: Students who are concurrently taking PUBPOL542 only need to do one group project for both classes.