

Problem Set 5

1. (Chap 19)

You are an economic adviser to the government of China in 2008. The country has current account surplus and is facing inflationary pressures.

(a). Show the location of the Chinese economy on a diagram like Figure 19-1.

(b). What would be your advice on how the authorities should move the renminbi's exchange rate? What would be your advice about fiscal policy? In that regard, you have three pieces of data: First, the current account surplus is big, in excess of 9 percent of GDP. Second, China currently provides a rather low level of government services to its people. Third, China's government would like to attract workers from the rural countryside into manufacturing employment, so Chinese officials would prefer to soften any negative impact of their policy package on urban employment.