

Econ 340

Lecture 4

Modern Theories and Additional Effects of Trade

News: Jan 20-26

- Argentina currency falls sharply, causing fears for other emerging markets -- WSJ: [1/25](#) | [Proquest](#) | NYT: [1/25](#) | [Proquest](#) | FT: [1/25](#) | [CTools](#)
 - The Argentine peso fell 10% on Thursday and continued to fall on Friday, prompting concerns about other emerging market currencies, which then also fell. Some were reminded of the "financial contagion" that afflicted Asian currencies and others in 1997, though others insist this is not the same.
 - The fall is caused in part by expectation of US monetary tapering and by slowing growth in China, but more directly it is caused by (and is also a cause of) high inflation in Argentina.
 - Argentina responded Friday by loosening limits on purchases of dollars. Meanwhile, the Argentine central bank has spent heavily out of his dollar reserves to stem the fall in the peso. Reserves have fallen from \$52.6 billion three years ago to \$29 billion. On Friday alone they spent \$160 million.
- World elite gather at Davos -- WSJ: [1/24](#) | [Proquest](#) | NYT: [1/21](#) | [Proquest](#) | FT: [1/22](#) | [CTools](#)
 - The annual World Economic Forum at Davos, Switzerland, convened last week, with such notables Shinzo Abe, Bill Gates, and Matt Damon joining the CEOs of many of the world's largest businesses. Not attending, however, were Warren Buffett, nor the CEOs of Apple, General Electric, Google, and Facebook.
 - The atmosphere at Davos always mirrors the world economy, and this year it is optimistic. This year, unlike the last several, it is growth of the US economy that is feeding this optimism, as emerging markets are showing cause for concern, especially slower growth in China. One theme was that technology is now leading the world economy, instead of banking and finance.
 - Also present were heads of state and diplomats, seeking to solve the problems of the Middle East: US Secretary of State John Kerry, Iranian President Hasan Rouhani, Syrian Foreign Minister Walid al-Moallem, and Israeli Prime Minister Benjamin Netanyahu.
- New restrictions on electronic trade -- FT: [1/22](#) | [CTools](#) | FT: [1/25](#) | [CTools](#)
 - Argentina, in an effort to curb capital flight, on Wednesday imposed restrictions on online shopping. Buyers on Amazon.com and similar sites must now sign a declaration and submit it when they collect their packages at the customs office. And they are limited to two purchases per year, up to a value of \$25, beyond which they pay a 50% tax. The policies are explicitly protectionist, as a cabinet official said "We must ask ourselves if we want Argentine industry, Argentine workers."
 - Russia is requiring extra paperwork on all parcels for personal use, with the result that DHL and FedEx have suspended deliveries to individuals in Russia. The motive is said to be to prevent consumers from evading import taxes by underreporting value of goods they purchase.

News: Jan 20-26

- Argentina currency falls sharply, causing fears for other emerging markets
 - The Argentine peso fell 10% on Thursday and continued to fall on Friday, prompting concerns about other emerging market currencies, which then also fell. Some were reminded of the "financial contagion" that afflicted Asian currencies and others in 1997, though others insist this is not the same.
 - The fall is caused in part by expectation of US monetary tapering and by slowing growth in China, but more directly it is caused by (and is also a cause of) high inflation in Argentina.
 - Argentina responded Friday by loosening limits on purchases of dollars. Meanwhile, the Argentine central bank has spent heavily out of his dollar reserves to stem the fall in the peso. Reserves have fallen from \$52.6 billion three years ago to \$29 billion. On Friday alone they spent \$160 million.