

Question 1: COVID-19 Pandemic and Growth in Developing Countries

Following is an article published in New York Times on Tuesday, April 14, 2020, titled *“The I.M.F. predicts the worst downturn since the Great Depression.”* Please read the whole article and answer the following questions.

The International Monetary Fund issued a stark warning about economic damage from the coronavirus, saying on Tuesday that the global economy faces its worst downturn since the Great Depression as shuttered factories, quarantines and national lockdowns cause economic output around the world to collapse.

In its [World Economic Outlook](#), the I.M.F. projected that the global economy would contract by 3 percent in 2020, an extraordinary reversal from earlier this year, when the fund forecast that the world economy would outpace 2019 and grow by 3.3 percent. This year’s fall in output would be far more severe than the last recession, when the world economy contracted by less than 1 percent from 2008 to 2009. A 3 percent decline in global output would be the worst since the Great Depression, the I.M.F. said.

“As countries implement necessary quarantines and social distancing practices to contain the pandemic, the world has been put in a Great Lockdown,” said Gita Gopinath, chief economist of the I.M.F. “The magnitude and speed of collapse in activity that has followed is unlike anything experienced in our lifetimes.”

Ms. Gopinath said that the loss of global output would be “far worse” than the 2008 financial crisis and that policymakers are facing an unusual predicament in that traditional stimulus measures are little match for a pandemic that is being fought with shutdowns and quarantines.

If the pandemic persists into the second half of the year, the contraction could be twice as severe and the expected rebound in 2021 could fail to materialize if additional waves of the virus spread later in the year. Over the next two years, the pandemic could shave \$9 trillion from global G.D.P.

Tentatively, the fund projects growth to rebound to 5.8 percent next year.

In 2020, the I.M.F. projects that the U.S. economy will contract by 5.9 percent. In Europe, it will shrink by 7.5 percent, led by steep declines in Italy and Spain.

Emerging markets and developing economies will not be spared, but in some cases they fare better. In China, where the virus originated and where draconian measures were imposed to combat it, growth is forecast to slow to a rate of 1.2 percent this year.

Questions:

Based on the knowledge you acquired from the course about exogenous and endogenous growth theory, about structural models and trade models, discuss the rationale behind the predictions of IMF, particularly for the emerging markets and developing economies, including China.

Explain whether these models can be used to explain the economic effects of the pandemic and if so, outline the features and characteristics of the effects that are generated by the coronavirus shutdowns (either in developed and/or in developing countries. Finally, would you think that these effects will be short-term, medium term or long term ? Explain why.

Question 2: Public Finance Management

You have been hired as a consultant for the IMF. Congratulations! For your first task, your boss asks you to read this following statement :

"A key challenge for developing economies wishing to strengthen their social protection systems and expand access to education and health is how to raise the necessary revenue in the context of a large informal sector"

Question:

Your boss wants you to analyze that statement. Is the statement wrong? Is it correct? If so, what would you suggest that low-income developing countries should do in order to be able to raise more revenues? What type of taxation systems would you envisage and what would you suggest to do in the short-run? The middle and the long run? What do you think would be the opportunities and the challenges that you would face in enacting your proposal?