

A financial crisis in Greece has unfolded over the last year. Greece is suffering both unsustainable budget deficits and a recession. In recent elections, Greek voters expressed a desire to repudiate the deal of fiscal austerity in exchange for bailout funds from the other euro-zone countries. Some commentators have suggested that everyone would be better off if Greece exited from the European Monetary Union, and returned to having its own currency with a flexible exchange rate. But this would carry its own risks. You and your classmates are economists hired by the Greece government to help them make an informed decision. Write a short essay making an argument for whether or not it would be better for Greece to leave the euro zone and adopt a flexible exchange rate regime.

Requirements:

Be sure to use the economic concepts and tools we have learned this quarter in your analysis and include the following items in your discussion:

- Define the nature of the problem in Greece and its origins.
- What are the benefits Greece derives from being part of the euro zone?
- How would exiting the euro zone affect monetary policy?
- How would it affect fiscal policy?
- How would it affect options for financing debt?

Your essay must be typed, double-spaced with 12 point font. (No hand-written essays will be acceptable.) You are required to read, cite, and list in a reference section at the end of your essay at least two outside articles from the list of approved sources below. You may also consult additional sources for further information, but at least two sources must come from the list below.

Working in Groups:

Working with your classmates is encouraged but not required. You may work in group of up to four people. The required length of the project depends on the number of group members: One student (2-3 pages), two students (3-4 pages) three or more students (4+ pages).

Sources:

The following newsmagazines and newspapers are available electronically via computers on campus.

- 1) Economist: a good news magazine on economics and international politics
<http://www.economist.com>
- 2) Financial Times: British financial newspaper. Use <http://web.lexisnexis.com/universe>, and specify publication
- 3) New York Times. Use <http://web.lexis-nexis.com/universe>, and specify publication