Causes and Consequences of Macroeconomic Challenges Facing Low-Income Countries as a Complex Economic System

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1. Background

According to World Bank country classifications (Gross National Income per capita), there are thirty six low income countries (LICs) in the world (World Bank, 2013). It is also noteworthy that many LICs have made great improvements toward gaining macroeconomic stability during last decade (ICTSD & FAO, 2012). Also, many of these LICs have become more integrated into the global economy through participation in international capital markets and attracting foreign investments due to newly achieved economic and social stabilities. Furthermore, they have been actively participating in international trade and entering markets for new goods and services as well as greater development in private financial sectors (ICTSD & FAO, 2012). The flip side of this internationalization is the vulnerability and susceptibility of these LIC economies to vagaries in the global economy. This new dimension and dynamics of behavior of LICs to changes in global economy triggered the need for a new generation of policies and tools to manage LICs changes in global economy. The specific objectives of our study are as follows:

1. To provide a graphical structure of macroeconomic challenges facing LICs highlighting complex interaction between exogenous and endogenous players, and
2. To offer policy prescriptions based on the graphical structure.

2. Objectives

Broadly defined macroeconomic variables pertaining to 36 LICs such as, measures of growth, macroeconomic stability, and measures of resilience to shocks will be gathered for various LICs for periods before and after recent global recession. More specifically they are, IMF lending, exchange rates, GDP growth, inflation, unemployment, flow of foreign direct investments (FDIs), external debt, interest rates, money supply, remittances, exchange market pressure index, and Buffer Index. Data with respect to pre and post global recession will be gathered from IMF and WB databases (World Development Indicators (WDI)). We gather time-series data for 36 countries for 30-year period from 1980 through 2010 for aforementioned macroeconomic measures.

3. Data

Empirical Estimation

Heretofore applications of the algorithms of inductive causation have been applied with either cross sectional data or to innovations from dynamic data (time series data), and filtered in vector autoregressive structures (Bessler and Akleman 1998).

Methodology

As a result, we are in position to identify exogeneous, weakly exogeneous and endogeneous macroeconomic variables that can be used to generate appropriate financial and development policy prescriptions. These include growth, macroeconomic stability and resilience to shocks of LICs.

Results and Discussion

Graphical directed acyclic structures will be derived connecting all macroeconomic variables affecting LICs performance global context. As a result, we are in position to identify exogeneous, weakly exogeneous and endogeneous macroeconomic variables that can be used to generate appropriate financial and development policy. These include growth, macroeconomic stability and resilience to shocks of LICs.

References


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