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Volume Title: Developing Country Debt and Economic Performance, Volume 2: The Country Studies -- Argentina, Bolivia, Brazil, Mexico

Volume Author/Editor: Jeffrey D. Sachs, editor

Volume Publisher: University of Chicago Press, 1990

Volume ISBN: 0-226-73333-5

Volume URL: <http://www.nber.org/books/sach90-1>

Conference Date: September 21-23, 1987

Publication Date: January 1990

Chapter Title: References

Chapter Author: Rudiger Dornbusch, Juan Carlos de Pablo

Chapter URL: <http://www.nber.org/chapters/c8931>

Chapter pages in book: (p. 150 - 156)

Chapter 6

1. We are indebted to Marcello Selowsky for suggesting this framework. The basic analysis is set out in Selowsky and van der Tak (1986). An alternative framework based on intertemporal optimization is reported in Blanchard (1983).
2. McCarthy (1987) reports a capital output ratio for Argentina of 4.35 in 1986. Assuming a depreciation rate of 3 percent per year, this yields an investment requirement of 13 percent just to keep the capital stock unchanged. It is apparent that the present level of investment implies that net investment has been negative.
3. In scenario B, the debt/income ratio by the year 2010 (not shown in the table) reaches $b = 66.7$.
4. See Dornbusch and Park (1987) for an analysis of Korean development.
5. See Dornbusch and Park (1987).
6. See *Carta Económico* (April 1986), 75–83. For an extensive discussion of distortions in the Argentine economy, see Nogues (1985, 1986, 1987).
7. See Ministerio de Economía (1986).
8. With an external debt ratio of 64 percent and an interest rate of 10 percent, the interest payments amount to 6.4 percent of GDP. A 15 percent real depreciation thus raises interest rates by 1 percent of GDP.
9. For a discussion of the economics of a free trade agreement between Argentina and Brazil, see Dornbusch (1981).

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