Problem Set #4

1. Over the past 25 years, per capita GDP in Japan has grown less than 1% per year. Why do you think per capita GDP growth has been so much slower after 1990 than in the post-war period before 1990?

2. Whenever you hear the phrase “This time is different,” you should expect some financial folly. The Nikkei index was 38,915 in December 1989. Try to make the case for why this was NOT a bubble. Explain why market fundamentals justified these stock prices.

3. The structure of Japanese trade looks fine from the perspective of the theory of comparative advantage and Heckscher-Ohlin when you look at net flows. But when you look at gross flows, Japan is an outlier. How is Japan different? How might you explain this difference?

4. Was the Bank of Japan responsible for starting the asset-price bubble and for not moving sooner to stop asset prices from increasing further during the 1980s? How would you defend the Bank of Japan?

5. Age dependency ratio, the ratio of older dependents (people older than 64) to the working-age population (15-64) is higher in Japan than any other country in the world. The ratio is approximately 43.91. What are the challenges associated with such a high dependency ratio? What should Japan do to address them?

Due Thursday 26 April