Student’s Name:

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Date when Due:

Module 3 Essay

**Reading 1: Johannes A. Schwarzer ‘Retrospectives Cost-Push and Demand-Pull Inflation: Milton Friedman and the “Cruel Dilemma”’**

Schwarzer (195-210) addressed the history of economic terms and ideas. He hoped to deepen the workaday dialogue of economists while perhaps also casting new light on ongoing questions. Between the year 1950 and 1970 most economists debated that the cost-push forces, specifically the union’s market power played a significant part in explaining how the inflation could emerge even when the economy had not yet attained full employment, this was demonstrated by Philips trade-off curve between full employment and price stability. Schwarzer (195-210) explained that that inflation or cruel dilemma is not cost-push or demand-pull, but it is both. He added that the Philips curve approach elaborates that goal for employment or prices are not entirely reconcilable.

Schwarzer (195-210) stated that Friedman debated that cost-push inflation regarding inflationary preference at full employment is not convincing because only the increasing market power makes the cost-push inflation that is union induced theoretically possible. Factors that are cited as cost-push forces like the union power thus becomes determinates of natural unemployment rate whereas the basic rate of the inflation depends on the monetary policy path. Friedman’s viewpoint is positive since it means that there is the absence of the conflict between the price stability and high employment. The modern doctrine regarding the process of inflationary plus the emphasis by Friedman’s on the total adjustment of the expectations of the inflation plays a primary role in the microeconomic research in a long time and the progression in shaping the monetary policy.

Nevertheless, queries concerning the inflation determinants have reemerged in the past years. The questions concentrated on the reasons as to why inflation is so stable, notwithstanding apparently significant shifts like intense expansionary fiscal policies and Great Recession. Significant elements that need to be analyzed further for the understanding of inflation in the present times include estimation and concept of the average unemployment rate, measurement, and role of expectations of inflation and the description of the primary framework used in the analysis of the inflation dynamics. The answers to the questions are sought in methods which cost-push and demand-pull factors interact in the economy with the expectations of the adjusting inflation, nominal rigidities, and imperfect markets.

Schwarzer (195-210) indicated that the Philips curve view of cruel dilemma was founded on the previous experience that the inflation can emerge before attainment of the full employment. One instance is when wages increased despite the presence of millions of people who were unemployed in the US. Others episodes following the World War II, mostly the years between 1955 and 1958, featured the increase of inflation which appeared to be high levels during that time, in spite of the unemployment that was present. Hence the policy issue was that inflation might exist together with unemployment that is non-fractional.

Schwarzer (195-210) argued that most economists interpreted the reasoning made by Friedman’s concerning the cruel dilemma as not innovative but evading the issue. The different arguments were that Friedman through submitting all the type of the cost-push forces and market imperfections under the definition he provided of the natural unemployment rate, defined conflict between the price stability and full employment. Mr. Friedman’s proposal sense of inflation is meaningful operationally cause by the increase in the quantity of money excessively. The rise could be as a result of the overall excess is demand emphasizing that the production capacity definition through comparison with the entire market might be excessive, is a significant issue concerning the natural rate concept by Friedman.

**Reading 2: Rodrik, Dani. "What Do Trade Agreements Really Do?"**

Rodrik, Dani (73-90) addressed the question "What Do Trade Agreements Do?" He stated that basic trade theory indicates that free trade is the optimal economic policy given the compensatory strategies could be implemented, and the hostile interaction with the failures in the market addressed via the corresponding systems. Rodrik, Dani (73-90) added that the only exception is that the broader nation might be capable of manipulating the terms of trade at the expense of the trade partners by usage of the optimal tariff. It provides the motive for rational for the nations to enter into the trade agreements hindering the mutual harmful protectionism of trade

Rodrik, Dani (73-90) indicated that economists have known for a long time that the real world agreements of business are hard to comprehend from the theory of optimal tariff. With the evolving of the trade agreements and going beyond the quotas and import tariffs into the harmonization and regulatory rules, it has been proven to be challenging to fit in the economic theory. Global agreements in the new areas of the economic outcomes which are beyond being ambiguous compared to the case of the lowering of the traditional border barriers. It might as well create the rise in the trade volume and the investments across the border. However, the efficiency and welfare effects are most uncertain. Rodrik, Dani (73-90) sketched the issues which would arise in the four sections. It compromises of the regulatory standard harmonization, settlement procedures of investor-state dispute, regulation concerning the capital flows of the cross border and the intellectual property rights that are trade related.

Rodrik, Dani (73-90) stated that when the economist teaches the trade gains, they focus on the fact that free trade is good for every nation on its own. The principle of the comparative advantage has remained to be the most important of the intellectual achievements. The direct implication is that the governments need to have free trade irrespective of what the partners in the trade do. By responding to the other country protectionism, through raising only trade barriers, is the equivalent in reducing the complaint. Rodrik, Dani (73-90) explained that the countries that are big in the world markets they tend to have the motivation to exploit the market. The import tariff hinders the home demand for the other nation’s exports and reduces the global price of imported goods. The Nash equilibrium in the big countries could be ineffective because every state could be imposing its optimal tariffs. Consistently, the trade agreement which enforced the free trade can leave the nations better off.

Rodrik, Dani (73-90) indicated that with the current trade agreements that concentrated on the reduction of the nontariff and tariff barriers it was comparatively easier to figure out the different models estimated reality better. For instance the General Agreement on Trade and Tariffs on the trade negotiations before the establishment of the World Trade Organization in 1995. The levels of tariffs were higher following World War II, and dialogues concentrated on reducing them. Other issues were addressed being the tariffs and the explicit border barriers. The tariffs being high were the evidence that the interests of the protectionist were met through lowering of the tariffs the trade agreements was the political commitment that succeeded. It suggests that the agreements moved the economies of the involved parties in the recommended direction. However, it is different in the normal inconsistency state where the short term enticements affected in favor of the defaulting on trade agreements.

**Reading 3: Lederman, Daniel, et al. "Entrepreneurship, Entry, and the Life Cycle of Firms in Latin America and the Caribbean: Are All Forms of Firm Creation Entrepreneurial?"**

Lederman, Daniel, et al., (23-59) argued that contrary to the widespread perception, Caribbean and Latin America has a vivacious entrepreneurial sector. Honestly, the share of the formal business, employers, and entrepreneur is bigger compared to the other regions that are middle-income. Companies are smaller compared to the other areas which are at the same level of development nevertheless with the more critical firm's creation of fewer jobs compare to the peers in the other regions. These patterns are reproduced in different environments. Following prolonged periods in the US the migrants from the area are like the natives to own businesses that are small sized however few of them have high employment generating companies.

Lederman, Daniel, et al., (23-59) explained that entrepreneurship is multifaceted with the simple definition failing to capture the diverse acts that are included. Most of the definitions view the establishment of the new companies as the significant dimension of the process of entrepreneurship. The entry is deliberated vital to the compound processes pf the entrepreneurship. Nevertheless, all the nearly are not the same because working at the creation of an enterprise is not the same as being engaged in entrepreneurship that is job-creating.

Lederman, Daniel, et al., (23-59) indicated that some business creates the firms like the Schumpeterian tradition while aiming at creating something that is new to bring to the market, changing the economy and establishing new jobs. The others develop firms responding to the grim employment projections, as the way of subsisting instead of the creation of the new product. When there are dynamic entrepreneurs in the economy, jobs are abundant, lowering the incentives for new business startups with a low probability of growing. Contrary, few innovative entrepreneurs will create fewer employment opportunities hence pushing some employees who have the ability to embrace business Even though both types of entrepreneurs are found in almost all countries; the absence of jobs in the developing countries suggests that the low growth in the entrepreneurship might be more prevalent at the minimum levels of development.

Lederman, Daniel, et al., (23-59) explained companies compete within the small defined sectors. More prominent firms are the primary employees in most areas. In the US for example, the more significant 5% of the companies accounted for over 75% of the employees toward the end on the 2000s in Mexico. In Mexico, the most significant 10% of the companies accounted for 70% of the employment. However, most of the firms were small. In the countries that are high income, nearly 70% of the firms had less than five workers in the year 2010. In Mexico, Colombia, Chile, Brazil and Argentina 9 out of 10 companies had less than five workers. Certainly, somewhat more than 60% of the business proprietors in Latin America have no paid employees.

Lederman, Daniel, et al., (23-59) examined the business creation process in the Caribbean and Latin America and benchmarked against the other nations. Secondly, the lifecycle of the region studied the frequency of how it develops and the dissimilarities in the process across the country and the kind of company. Lederman, Daniel, et al., (23-59) provided an in-depth analysis of the behavior of the new companies. He concluded that there is the firm establishment of new companies in the Caribbean and Latin America at both high and low entrepreneurship spectrum. Actually, in the formal and the informal sector the process of destruction and creation f business has no much difference compared to the other regions at the same phase of development and shares characteristics in the advanced nations.

**Additional reading: Naylor, Michael, and Jeffrey Boardman. "Real options in foreign investment: a South American case study."**

Naylor & Jeffrey (2012) explained that the high levels of the foreign investment internationally have risen at high speed in the recent past. They argued that foreign investment opportunities could be structured as a series of investment options and hence the investment appraisal needs to be carried out through the usage of the real possibilities of the framework. The capability of expanding internationally is presently the main cooperate skill. The quality appraisals will aid business to make substantially better budgeting decisions on capital. They illustrated the utilization of the actual option investment appraisal through the case study re-traces Force Corporation’s concerned venture through Village South America in Argentina. The FDI investment decision is recreated and evaluated.

Naylor & Jeffrey (2012) indicated that in the past, most of the return and risk trade-off in the FDI had been considered intuitively. This produced mixed outcomes. Provide the high demand that placed the scarce firms' resources, and it is significant that the investments are made in the regions that there is a likelihood it will add value to the business. Through taking the intelligent risk is the main factor that promotes business to succeed. Lately, there have been main developments in the techniques of the investment appraisal. The academics have established that the MNC requires to take into account the flexibility value. Flexibility mainly is essential in the contemporary FDI since MNCs carry out its activities in the environments with the increased uncertainty. The real options analysis needs the provision of the better framework of the decision making. The method obtained the financial report and strategy that permit the manager to attain better insight into the valuation of the problem,

Naylor & Jeffrey (2012) explained that normal NPV has a significant part to play because it provides a solid foundation for further analysis. The comprehensive appraisal needs to be analyzed at the main decisions junctions. FID appraisal needs to be designed to focus on the main areas of sensitivity and flexibility to risk. The aspects mention re of critical importance and need to be emphasized strongly mainly when investing in environmental that are highly volatile like Argentina. The practical guide shows the advantage that is substantial of adding the liquidity to the investment.

Naylor & Jeffrey (2012) stated that the forced investment was liquid and subject to the higher levels of the long-term uncertainty. First, the outcome justifies the risks. Nevertheless, the problems were composed by the rigid structure of financing which drastically affected the investment risk profile. Force would have benefited from the broader levels in the sensitivity analysis of the house. Over the report, the critical area was highlighted that were risky to the investment. The study demonstrated the investment in Argentina was justified and the following phase needed d more elaborated levels of the planning and financial engineering in the risk profile.

Naylor & Jeffrey (2012) explained that the limitation of the research was that the conclusions were made from the appraisal data of the year 1999. The information used is not likely to give the correct projection of the situation. The analysis made is subject to assumption. Best efforts have been put to make the analysis accurate and realistic as possible however this might not be the case. The inferences that were drawn from the study in the report were created to show how the practitioners could utilize the financial data to make conclusions on the investment viability. As explained, the research is subject to limitations, and thus any end made is subject to fault. The options that were presented in the actual option investigation are theoretical and were design to focus on the probable value of the real options analysis.

Works Cited

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