Ec 365
Fall 2016

MID-TERM 2

1. Where and why did the public debt first arise?
2. What is the main difference between the evolution of public finances in England and France between 1250 and 1400? Discuss at least one cause and one impact on historical events?
3. Describe and analyze the reasons for the payment stop of Philip II to the Genoese bankers in 1575.
4. Comment on the common features of the Casa di San Giorgio, the Bank of England and the experiment of John Law. Comment also on some differences (not *all* differences, just some that seems important to you).
5. What is the difference between unfunded and funded public debt? What is the difference between redeemable and not redeemable debt and how can this difference matter for public finances.
6. In 1749-1750, England reduced the annual payment of its public debt from 4 to 3%, without disturbance in the credit market. In 1770, the finance minister of France converted the tontines into life-time annuities which created a major scare in the financial markets. Discuss briefly the difference.
7. Discuss the balance between direct and indirect taxation in 18th century France. Discuss some cause for this balance and make a comparison with England in the same century.
8. In a country like England in the 18th century, suppose that the price of the 3% perpetual annuity is 75 and the price of the 4% annuity is 90.
   (a) What is the long-term interest rate?
   (b) Suppose that people anticipate that the government will eventually "reduce" the interest from 4 to 3 on the 4% annuity, with no additional compensation. Using the market data, provide a lower bound for the number of years that people expect to collect the annual coupon of 4 on the 4% annuity.
9. Suppose that in a country with institutions and markets like England in the 18th century, during a war, the market price of a 3 % non redeemable perpetual annuity is 80 and the market price of a 4% redeemable annuity is 105.
   (a) Would a reduction of the interest on the 4% annuity that may include an additional payment be an advisable policy. Explain clearly.
   (b) Suppose that the price of the 3% annuity is 105, and the price of the 4% annuity is 115. A brilliant member of parliament argues that since the 4% annuity is redeemable at par, he makes the proposal that all these annuities should be be converted immediately to 3% annuities (which at 105 have a higher value than par for the bond holders). Do you think that the plan will succeed?