Second Team Econometric Competition

April 3-4, 2009

Context. Recently a very important devaluation question is asked by experts, investors, individuals and governments in Estonia, Latvia and Lithuania. Frequently we hear:

- "Among all three Baltic states Latvia is the weakest link with regard to devaluation"
- "If Latvia devaluates its currency, then neighbours will follow the same path".

But all talks are speculative. We invite you to confirm or deny these statements with quantitative proof.

Remark. While doing further insight or conclusions, unconditionaly assume that any country will devaluate its currency if it is useful for long term economic growth or for GDP per capita.

Help (which is unnecessary to use):

- Are there any formal models of devaluation's influence on economic growth or on GDP per capita? Do these models fit for this situation or need some corrections due to specific coutries of interest?
- Do Estonia, Latvia and Lithuania gain from their currency devaluation? Do and how differ the short and the long term gain? How reliable are empirical results?
- Does Latvia gain most from devaluation in comparison to other Baltic states? Maybe there are other models showing that devaluation risk is the biggest there?
- If Latvia devaluates its currency, would it significantly change Lithuania's and Estonia's gain from their currency devaluation (or no devaluation)? On what it depends?
- What other assumptions are made except the first mentioned above? Which of them do look as not reliable? How can this change the conclusions (illustrate it quantitatively)?

Reminder. All qualitative conclusions and insights should be based on quantitative results.