MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Under the gold standard of currency exchange that existed from 1879 to 1914, an ounce of gold cost $20.67 in U.S. dollars and £4.2474 in British pounds. Therefore, the exchange rate of pounds per dollar under this fixed exchange regime was: 1) ______

A) £0.2055/$.
B) £4.8665/$.
C) always changing because the price of gold was always changing.
D) unknown because there is not enough information to answer this question.

2) World War I caused the suspension of the gold standard for fixed international exchange rates because the war: 2) ______

A) used gold as the main ingredient in armament plating.
B) interrupted the free movement of gold.
C) lasted too long.
D) cost too much money.

3) The post WWII international monetary agreement that was developed in 1944 is known as the: 3) ______

A) Yalta Agreement.
B) League of Nations.
C) Bretton Woods Agreement.
D) United Nations.

4) Another name for the International Bank for Reconstruction and Development is: 4) ______

A) the Marshall Plan.
B) the Recon Bank.
C) the European Monetary System.
D) the World Bank.

5) The International Monetary Fund (IMF): 5) ______

A) aids countries with balance of payment and exchange rate problems.
B) in recent years has provided large loans to Russia, South Korea, and Brazil.
C) was created as a result of the Bretton Woods Agreement.
D) is all of the above.

6) Which of the following led to the eventual demise of the fixed currency exchange rate regime worked out at Bretton Woods? 6) ______

A) differential rates of inflation across member nations
B) widely divergent national monetary and fiscal policies among member nations
C) several unexpected economic shocks to member nations
D) all of the above

7) Which of the following statements is NOT true? 7) ______

A) The time period between world wars 1 and 2 (the inter war Years) witnessed significant reductions in trade barriers and a rapid acceleration in international trade.

B) The Gold Standard Era was characterized by growing openness in trade, but limited capital mobility.

C) The Bretton Woods Era (post WWII) realized the increasing benefits of open economies. Furthermore, trade was increasingly dominated by capital.

D) In fact, all of the above statements are true.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

8) Under the terms of Bretton Woods, countries tried to maintain the value of their currencies to within 1% of a hybrid security made up of the U.S. dollar, British pound, and Japanese yen. 8) ______

9) Members of the International Monetary Fund may settle transactions among themselves by transferring Special Drawing Rights (SDRs). 9) ______

10) Today, the United States has been ejected from the International Monetary Fund for refusal to pay annual dues. 10) ______

11) From the time of its creation through July 2012, the euro peaked versus the USD in April 2008 at around $1.60/€ 11) ______

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

12) Most Western nations were on the gold standard for currency exchange rates from 1876 until 1914. Today we have several different exchange rate regimes in use, but most larger economy nations have freely floating exchange rates today and are not obligated to convert their currency into a predetermined amount of gold on demand. Currently several parties still call for the "good old days" and a return to the gold standard. Develop an argument as to why this is a good idea. 12) ____________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

13) Since 2009 the IMF's exchange rate regime classification system uses a "de facto classification" methodology. Under this system, a country that has given up their own sovereignty over monetary
policy is considered to have: 13) ______

A) floating arrangements.
B) a residual agreement.
C) soft pegs.
D) hard pegs.

14) Since 2009 the IMF's exchange rate regime classification system uses a "de facto classification" methodology. Under this system, countries with "fixed exchange rates" are considered to have: 14) ______

A) hard pegs.
B) soft pegs.
C) floating arrangements.
D) a residual agreement.

15) A small economy country whose GDP is heavily dependent on trade with the United States could use a(n) ________ exchange rate regime to minimize the risk to their economy that could arise due to unfavorable changes in the exchange rate. 15) ______

A) pegged exchange rate with the United States
B) managed float
C) independent floating
D) pegged exchange rate with the Euro

16) Since 2009 the IMF's exchange rate regime classification system uses a "de facto classification" methodology. Under this system, currencies that are predominantly market-driven are considered to be: 16) ______

A) floating arrangements.
B) a residual agreement.
C) soft pegs.
D) hard pegs.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

17) The euro is an example of a rigidly fixed system, acting as a single currency for its member countries. However, the euro itself is an independently floating currency against all other currencies. 17) ______

18) Although the contemporary international monetary system is typically referred to as a "floating regime," it is clearly not the case for the majority of the world's nations. 18) ______

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

19) The mobility of international capital flows is causing emerging market nations to choose between a free-floating currency exchange regime and a currency board (or taken to the limit, dollarization). Describe how each of the regimes would work and identify at least two likely economic results for each regime. 19) ____________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

20) Based on the premise that, other things equal, countries would prefer a fixed exchange rate, which of the following statements is NOT true? 20) ______

A) Fixed rates are inherently inflationary in that they require the country to follow loose monetary and fiscal policies.
B) Fixed exchange rate regimes necessitate that central banks maintain large quantities of international reserves for use in the occasional defense of the fixed rate.
C) Fixed rates provide stability in international prices for the conduct of trade.
D) Stable prices aid in the growth of international trade and lessen exchange rate risks for businesses.

21) Which of the following is NOT an attribute of the "ideal" currency? 21) ______

A) full financial integration
B) exchange rate stability
C) monetary independence
D) All are attributes of an ideal currency.

22) The authors discuss the concept of the "Impossible Trinity" or the inability to achieve simultaneously the goals of exchange rate stability, full financial integration, and monetary independence. If a country chooses to have a pure float exchange rate regime, which two of the three goals is a country most able to achieve? 22) _____

A) exchange rate stability and full financial integration
B) monetary independence and exchange rate stability
C) full financial integration and monetary independence
D) A country cannot attain any of the exchange rate goals with a pure float exchange rate regime.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

23) Based on the premise that, other things equal, countries would prefer a fixed exchange rate: Variable rates provide stability in international prices for the conduct of trade. 23) _____

24) If exchange rates were fixed, investors and traders would be relatively certain about the current and near future exchange value of each currency. 24) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

25) Which of the following is NOT a required convergence criteria to become a full member of the European Economic and Monetary Union (EMU)? 25) _____

A) Government debt should be no more than 60% of GDP.
B) National birthrates must be at 2.0 or lower per person.
C) The fiscal deficit should be no more than 3% of GDP.
D) Nominal inflation should be no more than 1.5% above the average inflation rate for the three members with the lowest inflation rates in the previous year.

26) According to the authors, what is the single most important mandate of the European Central Bank? 26) _____

A) Price, in euros, all products for sale in the European Union.
B) Promote price stability within the European Union.
C) Establish an EMU trade surplus with the United States.
D) Promote international trade for countries within the European Union.

27) Which of the following is a way in which the euro affects markets? 27) _____

A) Consumers and business enjoy price transparency and increased price-based competition.
B) Countries within the Euro zone enjoy cheaper transaction costs.
C) Currency risks and costs related to exchange rate uncertainty are reduced.
D) all of the above

28) For the three years from early 2002 to early 2005, the euro maintained a strong and steady rise in value against the U.S. dollar (USD). After a brief respite in 2005, the euro continued its climb against the USD into 2008. Which of the following were NOT a contributing factor in the assent of the euro and the decline in the dollar? 28) _____

A) a general weakening of the dollar after the attacks of September 11, 2001

B) severe U.S. balance of payments deficits

C) large U.S. balance of payment surpluses

D) All of the above were contributing factors.

29) The countries that use the euro as their currency have: 29) _____

A) agreed to use a single currency (*exchange rate stability*), allow individual control of their own money supply (*monetary independence*), but give up the free movement of capital in and out of their economies (*financial integration*).

B) gained control over their own money supply (*monetary independence*), allowed the free movement of capital in and out of their economies (*financial integration*), but give up *exchange rate stability*.

C) agreed to use a single currency (*exchange rate stability*), allow the free movement of capital in and out of their economies (*financial integration*), but give up individual control of their own money supply (*monetary independence*).

D) none of the above

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

30) The Euro currency is fixed against other currencies on the international currency exchange markets, but allows member country currencies to float against each other. 30) _____

31) The European Central Bank is a strong and independent central bank that has completely replaced the individual central banks of the countries that use the euro as their currency. 31) _____

32) The members of the EU do have relative freedom to set their own *fiscal policies*— government spending, taxation, and the creation of government surpluses or deficits. They are expected to keep deficit spending within limits. 32) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

33) Beginning in 1991 Argentina conducted its monetary policy through a currency board. In January 2002, Argentina abandoned the currency board and allowed its currency to float against other currencies. The country took this step because: 33) _____

A) the Argentine government lost the ability to maintain the pegged relationship as in fact investors and traders perceived a lack of equality between the Argentine Peso and the U.S. dollar.

B) the Argentine Peso had grown too strong against major trading powers thus the currency board policies were hurting the domestic economy.

C) the United States required the action as a prerequisite to finalizing a free trade zone with all of North, South, and Central America.

D) all of the above

34) In January 2002, the Argentine Peso changed in value from Peso1.00/$ to Peso1.40/$, thus, the Argentine Peso ________ against the U.S. dollar. 34) ______

A) weakened B) remained neutral
C) strengthened D) all of the above

35) In January 2000 Ecuador officially replaced its national currency, the Ecuadorian sucre, with the U.S. dollar. This practice is known as: 35) ______

A) dollarization. B) sucrerization.
C) a Yankee bailout. D) bi-currencyism.

36) You have been hired as a consultant to the central bank for a country that has for many years suffered from repeated currency crises and depends heavily on the U.S. financial and product markets. Which of the following policies would have the greatest effectiveness for reducing currency volatility of the client country with the United States? 36) ______

A) an exchange rate with a fixed price per ounce of gold
B) an exchange rate pegged to the U.S. dollar
C) an internationally floating exchange rate
D) dollarization

37) Which of the following is NOT an argument against dollarization? 37) ______

A) Dollarization removes currency volatility against the dollar.
B) Dollarization causes the country to lose the power of seignorage.
C) The central bank of the dollarized country loses the role of lender of last resort.
D) Dollarization causes a loss of sovereignty over domestic monetary policy.

38) The ability of a country to profit from its ability to print money is known as: 38) ______

A) profiteering. B) dollarization. C) inflation. D) seignorage.

39) Which of the following factors make it difficult for emerging market economies to choose a specific currency regime? 39) ______

A) weak fiscal, financial, and monetary institutions
B) the emerging market's vulnerability to sudden stoppages of outside capital flows
C) the tendency for commerce to allow currency substitution and the denomination of liabilities in dollars
D) all of the above

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

40) A currency board exists when a country's central bank commits to back its money supply entirely with foreign reserves at all times. 40) ______

41) Dollarization is a common solution for countries suffering from currency revaluation. 41) ______

42) By and large, high capital mobility is forcing emerging market nations to choose between the two extremes of a free floating regime or an exchange rate regime of dollarization of a currency board. 42) ______

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

43) Of the following, which is NOT a trade-off that must be dealt with in any exchange rate regime? 43) ______

A) dollars vs pounds

B) cooperation vs independence

C) rules vs discretionary action

D) All of the above are rate regime trade-offs.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

44) All exchange rate regimes must deal with the trade-off between rules and discretion as well as between cooperation and independence. 44) ______

45) Regime structures like the gold standard required no cooperative policies among countries, only the assurance that all would abide by the "rules of the game." 45) ______

46) Bretton Woods required less in the way of cooperation among countries than did the gold standard. 46) ______

1) A
2) B
3) C
4) D
5) D
6) D
7) A
8) FALSE
9) FALSE
10) FALSE
11) TRUE
12) The gold standard forces a nation to maintain sufficient reserves of gold to back its currency's value. This helps control inflation, as a country cannot print additional money without sufficient gold to back it up. The gold standard eases international transactions as there is little uncertainly about exchange rates for trade with foreign countries.
13) D
14) B
15) A
16) A
17) TRUE
18) TRUE
19) With free float the exchange rate is market determined and beyond the control of the country's central bank or government. The economic results are likely to be an independent monetary policy, free movement of capital, but less stability in the exchange rate. Such instability may be more than an emerging market country's small financial market can bear. A currency board on the other hand is an implied legislative commitment to fix the foreign exchange rate with a specific currency, generally the country's major trading partner. Dollarization is taking this policy to the extreme whereby the emerging market nation forgoes its currency for that of its major trading partner. An example of Dollarization is Panama using U.S. dollars as the official Panamanian currency. With such a regime, independent monetary policy is lost and political influence on monetary policy is eliminated. However, the benefits accruing to countries as a result of the ability to print its own money, seignorage, is lost.
20) A
21) D
22) C
23) FALSE
24) FALSE
25) B
26) B
27) D
28) C
29) C
30) FALSE
31) FALSE
32) TRUE
33) A
34) A

35) A
36) D
37) A
38) D
39) D
40) TRUE
41) FALSE
42) TRUE
43) A
44) TRUE
45) TRUE
46) FALSE