Student name:__________

1) The international monetary system can be defined as the institutional framework within which

A) international payments are made.
B) movement of capital is accommodated.
C) exchange rates among currencies are determined.
D) all of the options

2) Corporations today are operating in an environment in which exchange rate changes may adversely affect their competitive positions in the marketplace. This situation, in turn, makes it necessary for many firms to

A) carefully manage their exchange risk exposure.
B) carefully measure their exchange risk exposure.
C) carefully manage and measure their exchange risk exposure.
D) none of the options

3) The international monetary system went through several distinct stages of evolution. These stages are summarized, in alphabetic order, as follows:

1. (i) Bimetallism
2. (ii) Bretton Woods system
3. (iii) Classical gold standard
4. (iv) Flexible exchange rate regime
5. (v) Interwar period

The chronological order that they actually occurred is:

A) (iii), (i), (iv), (ii), and (v)
B) (i), (iii), (v), (ii), and (iv)
C) (vi), (i), (iii), (ii), and (v)
D) (v), (ii), (i), (iii), and (iv)

4) In the United States, bimetallism was adopted by the Coinage Act of 1792 and remained a legal standard until 1873,

A) when Congress dropped the silver dollar from the list of coins to be minted.

B) when Congress dropped the twenty-dollar gold piece from the list of coins to be minted.

C) when gold from the California gold rush drove silver out of circulation.

D) when gold from the California gold rush drove gold out of circulation.

5) The monetary system of bimetallism is unstable. Due to the fluctuation of the commercial value of the metals,

A) the metal with a commercial value lower than the currency value tends to be used as metal and is withdrawn from circulation as money (Gresham's Law).

B) the metal with a commercial value higher than the currency value tends to be used as money (Gresham's Law).

C) the metal with a commercial value higher than the currency value tends to be used as metal and is withdrawn from circulation as money (Gresham's Law).

D) none of the options

6) In the 1850s the French franc was valued by both gold and silver, under the official French ratio which equated a gold franc to a silver franc 15½ times as heavy. At the same time, the gold from newly discovered mines in California poured into the market, depressing the value of gold. As a result,

A) the franc effectively became a silver currency.

B) the franc effectively became a gold currency.

C) silver became overvalued under the French official ratio.

D) the franc effectively became a silver currency and silver became overvalued under the French official ratio.

7) Gresham's Law states that

A) bad money drives good money out of circulation.

B) good money drives bad money out of circulation.

C) if a country bases its currency on both gold and silver, at an official exchange rate, it will be the more valuable of the two metals that circulate.

D) none of the options.

8) Suppose that the pound is pegged to gold at £20 per ounce and the dollar is pegged to gold at $35 per ounce. This implies an exchange rate of $1.75 per pound. If the current market exchange rate is $1.80 per pound, how would you take advantage of this situation? *Hint: assume that you have $350 available for investment*.

A) Start with $350. Buy 10 ounces of gold with dollars at $35 per ounce. Convert the gold to £200 at £20 per ounce. Exchange the £200 for dollars at the current rate of $1.80 per pound to get $360.

B) Start with $350. Exchange the dollars for pounds at the current rate of $1.80 per pound. Buy gold with pounds at £20 per ounce. Convert the gold to dollars at $35 per ounce.

C) both of the options

D) none of the options

9) Suppose that the pound is pegged to gold at £20 per ounce and the dollar is pegged to gold at $35 per ounce. This implies an exchange rate of $1.75 per pound. If the current market exchange rate is $1.60 per pound, how would you take advantage of this situation? *Hint: assume that you have $350 available for investment*.

A) Start with $350. Buy 10 ounces of gold with dollars at $35 per ounce. Convert the gold to £200 at £20 per ounce. Exchange the £200 for dollars at the current rate of $1.80 per pound to get $360.

B) Start with $350. Exchange the dollars for pounds at the current rate of $1.60 per pound. Buy gold with pounds at £20 per ounce. Convert the gold to dollars at $35 per ounce.

C) both of the options

D) none of the options

10) Suppose that the United States is on a bimetallic standard at $30 to one ounce of gold and $2 for one ounce of silver. If new silver mines open and flood the market with silver,

A) only the silver currency will circulate.
B) only the gold currency will circulate.
C) no change will take place since citizens could exchange their gold currency for silver currency at any time.
D) none of the options.

11) Suppose that your country officially defines gold as ten times more valuable than silver (i.e., the central bank stands ready to redeem the currency in gold and silver and the official price of gold is ten times the official price of silver). If the market price of gold is only eight times as much as silver,

A) the central bank could go broke if enough arbitrageurs attempt to take advantage of the pricing disparity.
B) the central bank will make money since they are overpricing gold.
C) the central bank could go broke if enough arbitrageurs attempt to take advantage of the pricing disparity, but will more likely make money since they are overpricing gold
D) none of the options.

12) Prior to the 1870s, both gold and silver were used as international means of payment and the exchange rates among currencies were determined by either their gold or silver contents. Suppose that the dollar was pegged to gold at $30 per ounce, the French franc is pegged to gold at 90 francs per ounce and to silver at 9 francs per ounce of silver, and the German mark pegged to silver at 1 mark per ounce of silver. What would the exchange rate between the U.S. dollar and German mark be under this system?

A) 1 German mark = $2
B) 1 German mark = $0.50
C) 1 German mark = $3
D) 1 German mark = $1

13) Prior to the 1870s, both gold and silver were used as international means of payment and the exchange rates among currencies were determined by either their gold or silver contents. Suppose that the dollar was pegged to gold at $30 per ounce, the French franc is pegged to gold at 90 francs per ounce and to silver at 6 francs per ounce of silver, and the German mark pegged to silver at 1 mark per ounce of silver. What would the exchange rate between the U.S. dollar and German mark be under this system?

A) 1 German mark = $2
B) 1 German mark = $0.50
C) 1 German mark = $3
D) 1 German mark = $1

14) Suppose that country A and country B are both on a bimetallic standard. In country A the ratio is 15 to one (i.e., an ounce of gold is worth 15 times as much as an ounce of silver in that currency), while in country B the ratio is ten to one. If the free flow of capital is allowed between countries A and B, is this a sustainable framework?

A) Yes
B) No
C) There is not enough information to make an informed determination.

15) Suppose that both gold and silver are used as international means of payment and the exchange rates among currencies are determined by either their gold or silver contents. Suppose that the dollar was pegged to gold at $20 per ounce, the Japanese yen is pegged to gold at 120,000 yen per ounce and to silver at 8,000 yen per ounce of silver, and the Australian dollar is pegged to silver at $5 per ounce of silver. What would the exchange rate between the U.S. dollar and Australian dollar be under this system?

A) $1 U.S. = $1 Australian
B) $1 U.S. = $2 Australian
C) $1 U.S. = $3.75 Australian
D) none of the options

16) The United States adopted the gold standard in

A) 1776.
B) 1879.
C) 1864.
D) 1973.

17) The gold standard still has ardent supporters who believe that it provides

A) an effective hedge against price inflation.
B) fixed exchange rates between all currencies.
C) monetary policy autonomy.
D) all of the options

18) One potential drawback of the gold standard is that

A) the world economy can be subject to deflationary pressure due to the limited supply of monetary gold.
B) the world economy can be subject to inflationary pressure without changes in the supply of monetary gold.
C) gold is scarce.
D) all of the options

19) The first full-fledged gold standard

A) was not established until 1821 in Great Britain, when notes from the Bank of England were made fully redeemable for gold.
B) was not established until 1780 in the United States, when notes from the Continental Army were made fully redeemable for gold.
C) was established in 986 during the Han dynasty in China.
D) none of the options

20) An "international" gold standard can be said to exist when

A) gold alone is assured of unrestricted coinage.

B) there is two-way convertibility between gold and national currencies at stable ratios.

C) gold may be freely exported or imported.

D) all of the options

21) Under a gold standard, if Britain exports more to France than France exports to Great Britain,

A) such international imbalances of payment will be corrected automatically.

B) this type of imbalance will not be able to persist indefinitely.

C) net export from Britain will be accompanied by a net flow of gold in the opposite direction.

D) all of the options

22) Suppose that Britain pegs the pound to gold at six pounds per ounce, whereas the exchange rate between pounds and U.S. dollars is \$5 = £1. What would an ounce of gold be worth in U.S. dollars?

A) \$29.40

B) \$30.00

C) \$0.83

D) \$1.20

23) During the period of the classical gold standard (1875-1914) there were

A) highly volatile exchange rates.

B) volatile exchange rates.

C) moderately volatile exchange rates.

D) stable exchange rates.

E) no exchange rates.

24) The majority of countries got off the gold standard in 1914 when

A) the American Civil War ended.
B) World War I broke out.
C) World War II started.
D) none of the options

25) Suppose that Britain pegs the pound to gold at six pounds per ounce, whereas the exchange rate between pounds and U.S. dollars is $1 = £5. What would an ounce of gold be worth in U.S. dollars?

A) $0.42
B) $1.20
C) $1.22
D) $1.74

26) Suppose that Britain pegs the pound to gold at the market price of £6 per ounce, and the United States pegs the dollar to gold at the market price of $36 per ounce. If the official exchange rate between pounds and U.S. dollars is $5 = £1. Which of the following trades is profitable?

A) Start with £100 and trade for $500 at the official exchange rate. Redeem the $500 for 13.89 ounces of gold. Trade the gold for £83.33.
B) Start with $100 and buy gold. Sell the gold for £16.67. Sell the pounds at the official exchange rate.
C) Start with £100 and buy gold. Sell the gold for $600.
D) Start with $500 and trade for £100 at the official exchange rate. Redeem the £100 for 16 2/3 ounces of gold. Trade the gold for $600.

27) Assume that a country is on the gold standard. In order to support unrestricted convertibility into gold, banknotes need to be backed by a gold reserve of some minimum stated ratio. In addition,

A) the domestic money stock should rise and fall as gold flows in and out of the country.
B) the central bank can control the money supply by buying or selling the foreign currencies.
C) the domestic money stock should rise

and fall as gold flows in and out of the country and the central bank can control the money supply by buying or selling the foreign currencies.

D) none of the options

28) Under the gold standard, international imbalances of payment will be corrected automatically under the

A) Gresham Exchange Rate regime.
B) European Monetary System.
C) Price-specie-flow mechanism.
D) Bretton Woods Accord.

29) During the period between World War I and World War II,

A) the major European powers and the U.S. returned to the gold standard and fixed exchange rates.
B) while most countries abandoned the gold standard during World War I, international trade and investment flourished during the interwar period under a coherent international monetary system.
C) the U.S. dollar emerged as the dominant world currency, gradually replacing the British pound for the role.
D) none of the options

30) During the period between World War I and World War II, many central banks followed a policy of *sterilization of gold*

A) by restricting the rate of growth in the supply of gold.
B) by matching inflows and outflows of gold respectively with reductions and increases in domestic money and credit.
C) by matching inflows and outflows of gold respectively with increases and reductions in domestic money and credit.
D) none of the options

31) The price-specie-flow mechanism will work only if governments are willing to play by the rules of the game by letting the money stock rise and fall as gold flows in and out. Once the government demonetizes (neutralizes) gold, the mechanism will break down. In addition, the effectiveness of the mechanism depends on

A) the income elasticity of the demand for imports.
B) the price elasticity of the demand for imports.
C) the price elasticity of the supply of imports.
D) the income elasticity of the supply of imports.

32) During the period between World War I and World War II, the political reality was characterized by

A) halfhearted attempts and failure to restore the gold standard.
B) political instabilities and bank failures.
C) panicky flights of capital across borders.
D) all of the options

33) At the outbreak of World War I

A) major countries such as Great Britain, France, Germany and Russia suspended redemption of banknotes in gold.
B) major countries such as Great Britain, France, Germany and Russia imposed embargoes on the export of gold.
C) the classical gold standard was abandoned.
D) all of the options

34) The core of the Bretton Woods system was the

A) World Bank.
B) IMF.
C) United Nations.
D) Interstate Commerce Commission.

35) The Bretton Woods system was named after

A) the treasury secretary of the United States in 1945, Bretton Woods.

B) Bretton Woods, New Hampshire, where the Articles of Agreement of the International Monetary Fund (IMF) were hammered out.

C) the treasury secretary of the United States in 1945, Bretton Woods, as well as Bretton Woods, New Hampshire, where the Articles of Agreement of the International Monetary Fund (IMF) were hammered out.

D) none of the options

36) The Bretton Woods agreement resulted in the creation of

A) the *bancor* as an international reserve asset.

B) the World Bank.

C) the Exim bank.

D) the Federal Reserve Bank.

37) The Triffin paradox

A) was first proposed by Professor Robert Triffin.

B) warned that the gold-exchange system of the Bretton Woods agreement was programmed to collapse in the long run.

C) was indeed responsible for the eventual collapse of the dollar-based gold-exchange system in the early 1970s.

D) all of the options

38) Under the Bretton Woods system

A) there was an explicit set of rules about the conduct of international monetary policies.

B) each country was responsible for maintaining its exchange rate within 1 percent of the adopted par value by buying or selling foreign exchanges as necessary.

C) the U.S. dollar was the only currency that was fully convertible to gold.

D) All the choices are correct.

39) Under the Bretton Woods system each country established a par value for its currency in relation to the dollar. And the U.S. dollar was pegged to gold at

A) $1 per ounce.
B) $35 per ounce.
C) $350 per ounce.
D) $900 per ounce.

40) Under the Bretton Woods system, each country was responsible for maintaining its exchange rate within ±1 percent of the adopted par value by

A) buying or selling foreign exchanges as necessary.
B) buying or selling gold as necessary.
C) expanding or contracting the supply of loanable funds as necessary.
D) increasing or decreasing their money supply as necessary.

41) Under the Bretton Woods system,

A) the U.S. dollar was the only currency that was fully convertible to gold; other currencies were not directly convertible to gold.
B) all currencies of member states were fully convertible to gold.
C) all currencies of member states were fully convertible to gold or silver.
D) none of the options

42) In 1963, President John Kennedy imposed the Interest Equalization Tax (IET) on U.S. purchases of foreign securities. The IET was designed to

A) decrease the cost of foreign borrowing in the U.S. bond market.
B) increase the cost of foreign borrowing in the U.S. bond market.
C) decrease the cost of domestic borrowing in the U.S. bond market.
D) increase the cost of domestic borrowing in the U.S. bond market.

43) The growth of the Eurodollar market, which is a transnational, unregulated fund market

A) was encouraged by U.S. legislation designed to stem the outflow of dollars from the U.S.
B) was discouraged by U.S. legislation designed to stem the outflow of dollars from the U.S.
C) was neither encouraged nor discouraged by U.S. legislation designed to stem the outflow of dollars from the U.S.
D) none of the options

44) In the years leading to the collapse of the Bretton Woods system

A) it became clear that the dollar was undervalued.
B) it became clear that the dollar was overvalued.

45) Under the Bretton Woods system

A) each country established a par value for its currency in relation to the dollar.
B) the U.S. dollar was pegged to gold at $35 per ounce.
C) each country was responsible for maintaining its exchange rate within 1 percent of the adopted par value by buying or selling foreign exchanges as necessary.
D) all of the options

46) Special Drawing Rights (SDR) are

A) an artificial international reserve allotted to the members of the International Monetary Fund (IMF), who can then use it for transactions among themselves or with the IMF.
B) a "portfolio" of currencies, and its value tends to be more stable than the currencies that it is comprised of.
C) used in addition to gold and foreign exchanges, to make international payments.
D) All of these choices are correct.

47) The Bretton Woods system ended in

A) 1945.
B) 1973.
C) 1981.
D) 2001.

48) Since the end of the fixed exchange rate system of the Smithsonian agreement

A) exchange rates were revalued in the Bretton Woods agreement.
B) exchange rates have been allowed to float.
C) the United States returned to a gold standard.
D) the zone of monetary stability has been limited to the U.S., Canada, and Mexico.

49) Since the SDR is a "portfolio" of currencies

A) its value tends to be more stable than the value of any of the individual currencies included in the SDR.
B) its value tends to be less stable than the value of any of the individual currencies included in the SDR.
C) its value tends to be as stable as the average of the individual currencies included in the SDR.
D) none of the options

50) Which of the following statements regarding the gold-exchange standard are true?

A) A country on the gold-exchange standard holds very little of its reserves in the form of currency of a country.
B) Advocates in favor argue that the system economizes on gold because countries cannot use gold in foreign exchanges as an international means of payment.
C) A country on the gold-exchange standard holds most of its reserves in the form of currency of a country and advocates in favor argue that the system economizes on gold because countries can use gold in foreign exchanges as an international means of payment are correct.
D) none of the options are true

51) Put the following in correct date order:

A) Jamaica Agreement, Bretton Woods Agreement, Smithsonian Agreement.
B) Smithsonian Agreement, Bretton Woods Agreement, Jamaica Agreement.
C) Bretton Woods Agreement, Smithsonian Agreement, Jamaica Agreement.
D) Bretton Woods Agreement, Jamaica Agreement, Smithsonian Agreement.

52) Put the following in correct date order:

A) Jamaica Agreement, Plaza Agreement, Louvre Accord.
B) Plaza Agreement, Jamaica Agreement, Louvre Accord.
C) Louvre Accord, Jamaica Agreement, Plaza Agreement.
D) Jamaica Agreement, Louvre Accord, Plaza Agreement.

53) The G-7 is composed of

A) Canada, France, Japan, Germany, Italy, the U.K., and the United States.
B) Switzerland, France, Japan, Germany, Italy, the U.K., and the United States.
C) Switzerland, France, North Korea, Germany, Italy, the U.K., and the United States.
D) Switzerland, France, Japan, Germany, Canada, the U.K., and the United States.

54) Gold was officially abandoned as an international reserve asset

A) in the January 1976 Jamaica Agreement.
B) in the 1971 Smithsonian Agreement.
C) in the 1944 Bretton Woods Agreement.
D) none of the options

55) Following the demise of the Bretton Woods system, the IMF

A) created a new role for itself, providing loans to countries facing balance-of-payments and exchange rate difficulties.
B) ceased to exists, since the era of fixed exchange rates had ended.
C) became the sole agent responsible for maintaining fixed exchange rates.
D) became the central bank of the United Nations.

56) Under a flexible exchange rate regime, governments can retain monetary policy independence because the external balance will be achieved by

A) the exchange rate adjustments.
B) the price-specie flow mechanism.
C) the Triffin paradox.
D) none of the options

57) The choice between the alternative exchange rate regimes (fixed or floating) is likely to involve a trade-off between

A) national monetary policy autonomy and international economic integration.
B) exchange rate uncertainty and national policy autonomy.
C) balance of payments autonomy and inflation.
D) unemployment and inflation.

58) Under a purely flexible exchange rate system

A) supply and demand set the exchange rates.
B) governments can set the exchange rate by buying or selling reserves.
C) governments can set exchange rates with fiscal policy.
D) governments can set the exchange rate by buying or selling reserves and with fiscal policy.

59) A currency board arrangement is

A) when the currency of another country circulates as the sole legal tender.

B) when the country belongs to a monetary or currency union in which the same legal tender is shared by the members of the union.

C) a monetary regime based on an explicit legislative commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate, combined with restrictions on the issuing authority to ensure the fulfillment of its legal obligation.

D) where the country pegs its currency at a fixed rate to a major currency where the exchange rate fluctuates within a narrow margin of less than one percent.

60) A conventional peg refers to.

A) involves the confirmation of the country authorities' de jure exchange rate arrangement.

B) when a country formally pegs its currency at a fixed rate to another currency or basket of currencies where the basket reflects the geographic distribution of trade, services, or capital flows.

C) where the exchange rate remains within a narrow margin of 2 percent relative to a statistically identified trend for six months or more, and the exchange rate arrangement cannot be considered as floating.

D) where the exchange rate is largely market determined without an ascertainable or predictable path for the rate.

61) A crawl-like arrangement refers to:

A) involves the confirmation of the country authorities' de jure exchange rate arrangement.

B) when a country formally pegs its currency at a fixed rate to another currency or basket of currencies where the basket reflects the geographic distribution of trade, services, or capital flows.

C) where the exchange rate remains within a narrow margin of 2 percent relative to a statistically identified trend for six months or more, and the exchange rate arrangement cannot be considered as floating.

D) where the exchange rate is largely market determined without an ascertainable or predictable path for the rate.

62) A floating exchange rate is:

A) involves the confirmation of the country authorities' de jure exchange rate arrangement.
B) when a country formally pegs its currency at a fixed rate to another currency or basket of currencies where the basket reflects the geographic distribution of trade, services, or capital flows.
C) where the exchange rate remains within a narrow margin of 2 percent relative to a statistically identified trend for six months or more, and the exchange rate arrangement cannot be considered as floating.
D) where the exchange rate is largely market determined without an ascertainable or predictable path for the rate.

63) A crawling peg is:

A) involves the confirmation of the country authorities' de jure exchange rate arrangement.
B) when a country formally pegs its currency at a fixed rate to another currency or basket of currencies where the basket reflects the geographic distribution of trade, services, or capital flows.
C) where the exchange rate remains within a narrow margin of 2 percent relative to a statistically identified trend for six months or more, and the exchange rate arrangement cannot be considered as floating.
D) where the exchange rate is largely market determined without an ascertainable or predictable path for the rate.

64) Ecuador does not have its own national currency, circulating the U.S. dollar instead. About how many countries do not have their own national currency?

A) 10
B) 20
C) 30
D) 40

A) independent floating (market determined).
B) managed float.
C) currency board.
D) pegged exchange rate within a horizontal band.

66) With regard to the current exchange rate arrangement between Italy and Germany, it is best characterized as

A) independent floating (market determined).
B) managed float.
C) an exchange arrangement with no separate legal tender.
D) pegged exchange rate within a horizontal band.

67) On January 1, 1999, an epochal event took place in the arena of international finance when

A) all EU countries adopted a common currency called the euro.
B) eight of 15 EU countries adopted a common currency called the euro.
C) nine of 15 EU countries adopted a common currency called the euro.
D) eleven of 15 EU countries adopted a common currency called the euro.

68) The advent of the euro marks the first time that sovereign countries have voluntarily given up their

A) national borders to foster economic integration.
B) monetary independence to foster economic integration.
C) fiscal policy independence to foster economic integration.
D) national debt to foster economic integration.

69) To pave the way for the European Monetary Union, the member countries of the European Monetary System agreed to achieve a *convergence* of their economies. Which of the following is *not* a condition of convergence:

A) keep the ratio of government budget deficits to GDP below 3 percent.
B) keep gross public debts below 60 percent of GDP.
C) achieve a high degree of price stability.
D) maintain its currency at a fixed exchange rate to the ERM.

70) The European Monetary System (EMS) has the chief objective(s)

A) to establish a "zone of monetary stability" in Europe.
B) to coordinate exchange rate policies vis-à-vis the non-EMS currencies.
C) to pave the way for the eventual European monetary union.
D) all of the options

71) The Exchange Rate Mechanism (ERM) is

A) the procedure by which ERM member countries collectively manage their exchange rates.
B) based on a "parity-grid" system, which is a system of par values among ERM countries.
C) the procedure by which ERM member countries collectively manage their exchange rates and is based on a "parity-grid" system, which is a system of par values among ERM countries.
D) none of the options

72) The Maastricht Treaty

A) irrevocably fixed exchange rates among the member currencies.
B) commits the members of the European Union to political union as well as monetary union.
C) was signed and subsequently ratified by the 12 member states.
D) all of the options

A) 1984
B) 1991
C) 1999
D) 2001

74) Benefits from adopting a common European currency include

A) reduced transaction costs.
B) elimination of exchange rate risk.
C) increased price transparency, which promotes Europe-wide competition.
D) all of the options

75) Monetary policy for the countries using the euro as a currency is now conducted by

A) the Federal Reserve.
B) the Bundesbank.
C) European Central Bank.
D) none of the options

76) Following the introduction of the euro, the national central banks of the euro-12 nations

A) disbanded.
B) formed the EIB, which is analogous to the Federal Reserve System in the U.S.
C) ceased to perform important functions in their jurisdictions.
D) formed the ESCB, which is analogous to the Federal Reserve System in the U.S., and continue to perform important functions in their jurisdictions.

77) The main cost of European monetary union is

A) the loss of national monetary and exchange rate policy independence.
B) increased exchange rate uncertainty.
C) lessened

political integration.

D) none of the options

78) The euro zone is remarkably comparable to the United States in terms of

A) population size.
B) GDP.
C) international trade share.
D) all of the options

79) Which country is *not* using the euro?

A) Greece
B) Italy
C) Sweden
D) Portugal

80) Once the changeover to the euro was completed by July 1, 2002, the legal-tender status of national currencies in the euro zone

A) was canceled, leaving the euro as the sole legal tender in the euro zone countries.
B) was affirmed at the fixed exchange rate.
C) was tied to gold.
D) none of the options

81) According to the theory of optimum currency areas,

A) the relevant criterion for identifying and designing a common currency zone is the degree of factor (i.e., capital and labor) mobility within the zone.
B) exchange rates should reflect the degree to which workers are willing to move to get a better job.
C) exchange rates are determined by portfolio managers seeking the highest return.
D) none of the options

82) Willem Duisenberg, the first

president of the European Central Bank, defined "price stability" as an annual inflation rate of

A) "no more than five percent."
B) "less than but close to 2 percent."
C) "absolutely no more than zero percent."
D) "no more than three percent."

83) Robert A. Mundell won the Nobel Memorial Prize in Economic Science. He was

A) one of the intellectual fathers of both the new European common currency and Reagan-era supply-side economics.
B) one of the intellectual fathers of both the new European common currency and Reagan-era Keynesian economics.
C) one of the intellectual fathers of both the Bretton Woods currency agreement and Keynesian economics.
D) none of the options

84) In the EU, there is a

A) low degree of fiscal integration among EU countries.
B) high degree of fiscal integration among EU countries.

85) When money can move freely across borders, policy makers must choose between

A) exchange-rate stability and an economic growth.
B) exchange-rate stability and inflation.
C) exchange-rate stability and an independent monetary policy.
D) exchange-rate stability and capital controls.

86) The Mexican Peso Crisis was touched off by

A) an unsurprising announcement by the Mexican government to devalue the peso against the dollar by 14 percent.

B) an unexpected announcement by the Mexican government to devalue the peso against the dollar by 14 percent.

C) an announcement by the Mexican government to enact a currency board arrangement with the U.S. dollar.

D) contagion from other Latin American and Asian financial markets.

87) Prior to the peso crisis, Mexico depended on foreign portfolio capital to finance its economic development. This foreign capital influx

A) caused higher domestic inflation.

B) led to an *over*valued peso.

C) helped Mexico's trade balances.

D) caused higher domestic inflation and led to an *over*valued peso.

88) The Mexican peso crisis is significant in that

A) it is perhaps the first serious international financial crisis touched off by cross-border flight of portfolio capital.

B) selling by international portfolio managers had a highly destabilizing, contagious effect on the world financial system.

C) it provides a cautionary tale that as the world's financial markets are becoming more integrated, this type of contagious financial crisis is likely to occur more often.

D) all of the options

89) The Asian Currency Crisis

A) happened just prior to the Mexican peso crisis.

B) turned out to be far *more* serious than the Mexican peso crisis in terms of the extent of contagion.

C) was limited to Asian currencies.

D) was almost over before anyone outside the Pacific Rim noticed.

90) Generally speaking, liberalization of financial markets when combined with a weak, underdeveloped domestic financial system tends to

A) strengthen the domestic financial system in the short run.
B) create an environment susceptible to currency and financial crises.
C) raise interest rates and lead to domestic recession.
D) none of the options

91) According to the "Trilemma" a country can attain only two of the following three conditions: (1) A fixed exchange rate, (2) free international flows of capital, and (3) an independent monetary policy. This difficulty is also known as

A) the incompatible trinity.
B) the Iron Triangle.
C) the Tobin tax.
D) none of the options

92) Another name for the incompatible trinity is the

A) Tobin Tax.
B) Triffin Paradox.
C) Trilemma.
D) none of the options

93) To avoid currency crisis in the face of fully integrated capital markets, a country can have a

A) floating exchange rate only.
B) fixed exchange rate only.
C) fixed exchange rate that adjusts.
D) floating and fixed exchange rates can both help to avoid currency crises.

94) During the 1990s there

A) were three major currency crises.
B) were two major currency crises.
C) was only one currency crisis.
D) were no major currency crises.

95) Which factors are related to the collapse of the Argentine currency board system and ensuing economic crisis?

A) The lack of fiscal discipline on the part of the Argentine government
B) Labor market inflexibility
C) Contagion from the financial crises in Russia and Brazil
D) all of the options

96) Prior to the Argentine Peso Crisis

A) Argentina had a "dirty float" where the government allowed the exchange rate to float within wide bands.
B) Argentina had a currency board arrangement with the peso pegged to the U.S. dollar at parity.
C) the Argentine government defaulted on its international debts.
D) weakening of the U.S. dollar led the Argentine government to abandon dollarization.

97) A "good" (or ideal) international monetary system should provide

A) liquidity, elasticity, and flexibility.
B) elasticity, sensitivity, and reliability.
C) liquidity, adjustments, and confidence.
D) none of the options

98) A central bank can fix an exchange rate

A) in perpetuity.
B) only for as long as the market believes

that it has the political will to do so.

C) only for as long as it has reserves of gold.

D) only for as long as it has independence of monetary policy.

99) A booming economy with a fixed or stable nominal exchange rate

A) inevitably brings about an appreciation of the real exchange rate.

B) inevitably brings about a depreciation of the real exchange rate.

C) inevitably brings about a stabilization of the real exchange rate.

D) inevitably brings about increased volatility of the real exchange rate.

100) Advantages of a flexible exchange rate include which of the following?

A) National policy autonomy.

B) Easier external adjustments.

C) The government can use monetary and fiscal policies to pursue whatever economic goals it chooses.

D) all of the options

101) Advantages of a fixed exchange rate include

A) reduction in exchange rate risk for businesses.

B) reduction in transactions costs.

C) reduction in trading frictions.

D) all of the options

102) Generally speaking, a country would be more prone to asymmetric shocks

A) the more diversified and less trade-dependent its economy is.

B) the less

diversified and more trade-dependent its economy is.

C) the less diversified and less trade-dependent its economy is.

D) the more diversified and more trade-dependent its economy is.

103) Once capital markets are integrated, it is difficult for a country to maintain a fixed exchange rate. Why?

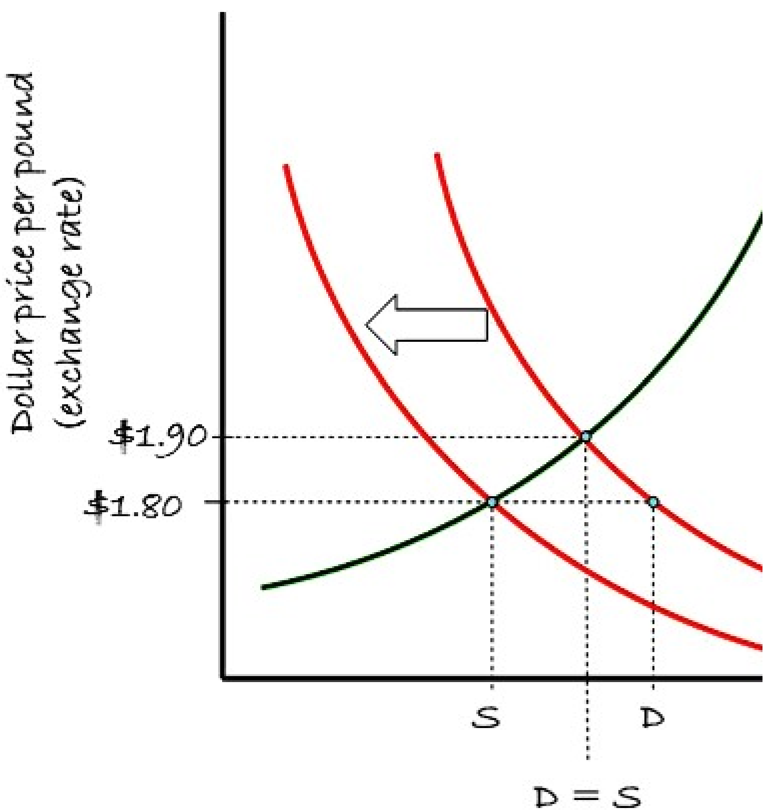
A) The market forces may be stronger than the exchange rate intervention that the government can muster.

B) Portfolio managers will not invest in countries with fixed exchange rates.

C) Because of the Tobin Tax.

D) none of the options

104) Consider the supply-demand framework for the British pound relative to the U.S. dollar shown in the following chart. The exchange rate is currently \$1.80 = £1.00. Which of the following is correct?



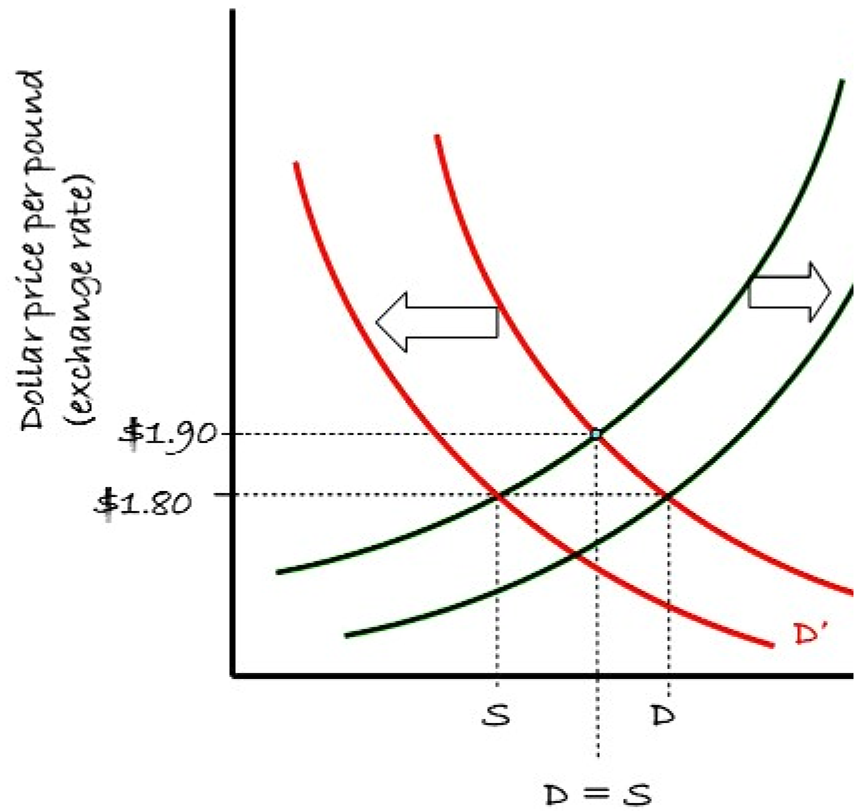
A) At an exchange rate of $1.80 = £1.00, demand for British pounds exceeds supply.

B) At an exchange rate of $1.80 = £1.00, supply for British pounds exceeds demand.

C) Under a flexible exchange rate regime, the U.S. dollar will depreciate to an exchange rate of $1.90 = £1.00.

D) At an exchange rate of $1.80 = £1.00, demand for British pounds exceeds supply. Additionally, under a flexible exchange rate regime, the U.S. dollar will depreciate to an exchange rate of $1.90 = £1.00.

105) Consider the supply-demand framework for the British pound relative to the U.S. dollar shown in the following chart. The exchange rate is currently $1.80 = £1.00. Which of the following is correct?



A) To "fix" the exchange rate at $1.80 = £1.00, the Federal Reserve could use contractionary monetary policy to shift the demand curve to the left.

B) To "fix" the exchange rate at $1.80 = £1.00, the U.S. government could use contractionary fiscal policy to shift the demand curve to the left.

C) The British

Government could use fiscal or monetary policy to shift the supply curve to the right to fix the exchange rate to $1.80 = £1.00.

D) all of the options

Answer Key

Test name: International Financial Management Chapter 02 Test Bank

1) D

2) C

3) B

4) A

5) C

6) B

7) A

8) A

9) B

10) A

11) A

12) C

13) A

14) B

15) C

16) B

17) A

18) A

19) A

20) D

21) D

22) B

23) D

24) B

25) B

26) D

27) A

28) C

29) C

30) B

31) B

32) C

33) B

34) A

35) B

36) B

37) D

38) D

39) B

40) A

41) A

42) B

43) A

44) B

45) D

46) D

47) B

48) B

49) A

50) C

51) C

52) A

53) A

54) A

55) A

56) A

57) A

58) A

59) C

60) B

61) C

62) D

63) A

64) D

65) A

66) C

67) D

68) B

69) D

70) D

71) C

72) D

73) C

74) D

75) C

76) D

77) A

78) A

79) C

80) A

81) A

82) B

83) A

84) A

85) C

86) B

87) D

88) D

89) B

90) B

91) A

92) C

93) D

94) A

95) D

96) D

97) C

98) B

99) A

100) D

101) D

102) B

103) A

104) D

105) D