Chapter 02 International Monetary System

Student: ____

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

A.
B.
C.
D.

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.
B.
C.

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

(i) - Bimetallism
(ii) - Bretton Woods system
(iii) - Classical gold standard
(iv) - Flexible exchange rate regime
(v) - Interwar period

The chronological order that they actually occurred is:

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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.
B.
C.
D.

7. Gresham's Law states that

A.
B.
C.
D.

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.
B.
C.
D.

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.
B.
C.
D.

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.
B.
C.
D.

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.
B.

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.
B.
C.
D.

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.
B.
C.
D.

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.
B.
C.

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.
B.
C.
D.

16. The United States adopted the gold standard in

A.
B.
C.
D.

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

A.
B.
C.
D.

18. One potential drawback of the gold standard is that

A.
B.
C.
D.

19. The first full-fledged gold standard

A.
B.
C.
D.

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

A.
B.
C.
D.

21. Under a gold standard, if Britain exported more to France than France exported to Great Britain,

A.
B.
C.
D.

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 should an ounce of gold be worth in U.S. dollars?

A.
B.
C.
D.

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

A.
B.
C.
D.
E.

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

A.
B.
C.
D.

25. Suppose that the British pound is pegged to gold at £6 per ounce, whereas one ounce of gold is worth €12. Under the gold standard, any misalignment of the exchange rate will be automatically corrected by cross border flows of gold. Calculate the possible gains for buying €1,000, if the British pound becomes undervalued and trades for €1.80. (Assume zero shipping costs).
(Hint: Gold is first purchased using the devalued British pound from the Bank of England, then shipped to France and sold for €1,000 to the Bank of France).

A.
B.
C.
D.

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.
B.
C.
D.

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.
B.
C.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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.
B.
C.
D.

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

A.
B.
C.
D.

33. At the outbreak of World War I

A.
B.
C.
D.

34. The core of the Bretton Woods system was the

A.
B.
C.
D.

35. The Bretton Woods system was named after

A.
B.
C.

36. The Bretton Woods agreement resulted in the creation of

A.
B.
C.
D.

37. The Triffin paradox

A.
B.
C.
D.

38. Under the Bretton Woods system

A.
B.
C.
D.

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.
B.
C.
D.

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.
B.
C.
D.

41. Under the Bretton Woods system,

A.
B.
C.
D.

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.
B.

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

A.
B.

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

A.
B.

45. Under the Bretton Woods system

A.
B.
C.
D.

46. Special Drawing Rights (SDR) are

A.
B.
C.
D.

47. The Bretton Woods system ended in

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

50. Put the following in correct date order:

A.
B.
C.
D.

51. Put the following in correct date order:

A.
B.
C.
D.

52. The G-7 is composed of

A.
B.
C.
D.

53. Gold was officially abandoned as an international reserve asset

A.
B.
C.
D.

54. Following the demise of the Bretton Woods system, the IMF

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

57. Under a purely flexible exchange rate system

A.
B.
C.
D.

58. A currency board arrangement is

A.
B.
C.
D.

59. 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.
B.
C.
D.

60. With regard to the current exchange rate arrangement between the U.S. and the U.K., it is best characterized as

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

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

A.
B.
C.
D.

64. 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.
B.
C.
D.

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

A.
B.
C.
D.

66. The Exchange Rate Mechanism (ERM) is

A.
B.
C.
D.

67. The Maastricht Treaty

A.
B.
C.
D.

68. The single European currency, the euro, was adopted by 11 member nations on January 1 of what year?

A.
B.
C.
D.

69. Benefits from adopting a common European currency include

A.
B.
C.
D.

70. Monetary policy for the countries using the euro as a currency is now conducted by

A.
B.
C.
D.

71. Following the introduction of the euro, the national central banks of the euro-12 nations

A.
B.
C.
D.

72. The main cost of European monetary union is

A.
B.
C.
D.

73. The euro zone remarkably comparable to the United States in terms of

A.
B.
C.
D.

74. Which country is NOT using the euro?

A.
B.
C.
D.

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

A.
B.
C.
D.

76. According to the theory of optimum currency areas,

A.
B.
C.
D.

77. Willem Duisenberg, the first president of the European Central Bank, defined "price stability" as an annual inflation rate of

A.
B.
C.
D.

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

A.
B.
C.
D.

79. In the EU, there is a

A.
B.

80. When money can move freely across borders, policy makers must choose between

A.
B.
C.
D.

81. The Mexican Peso Crisis was touched off by

A.
B.
C.
D.

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

A.
B.
C.
D.

83. The Mexican peso crisis is significant in that

A.
B.
C.
D.

84. The Asian Currency Crisis

A.
B.
C.
D.

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

A.
B.
C.
D.

86. 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, (3) An independent monetary policy. This difficulty is also known as

A.
B.
C.
D.

87. Another name for the incompatible trinity is the

A.
B.
C.
D.

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

A.
B.
C.
D.

89. During the 1990s there

A.
B.
C.
D.

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

A.
B.
C.
D.

91. Prior to the Argentine Peso Crisis

A.
B.
C.
D.

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

A.
B.
C.
D.

93. A central bank can fix an exchange rate

A.
B.
C.
D.

94. A booming economy with a fixed or stable nominal exchange rate

A.
B.
C.
D.

95. Advantages of a flexible exchange rates include which of the following?

A.
B.
C.
D.

96. Advantages of a fixed exchange rates include

A.
B.
C.
D.

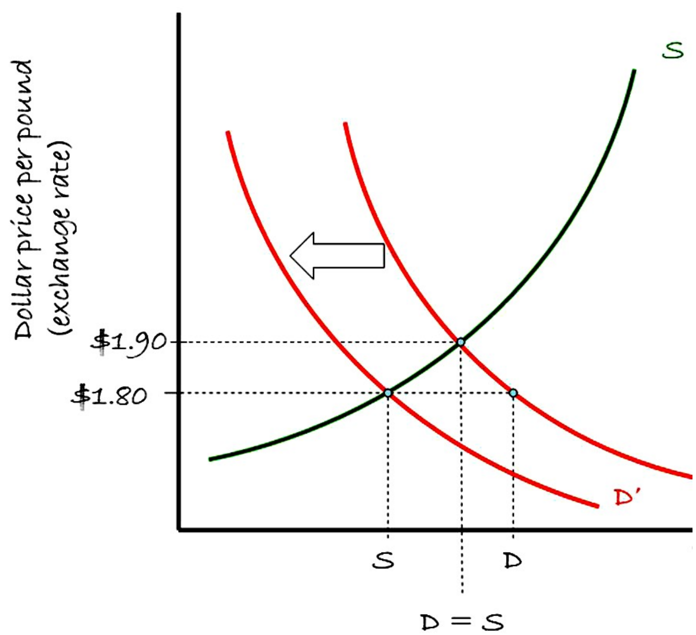
97. Generally speaking, a country would be more prone to asymmetric shocks

A.
B.
C.
D.

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

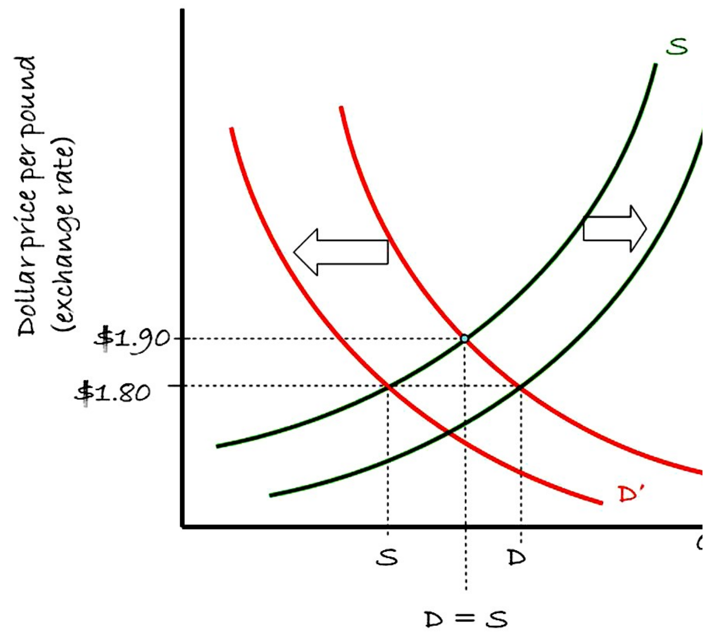
A.
B.
C.
D.

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



A.
B.
C.
D.

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



A.
B.
C.
D.

Chapter 02 International Monetary System Key

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

A.
B.
C.
D.

Eun - Chapter 02 #1
Topic: Evolution of the International Monetary System

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.
B.
C.

Eun - Chapter 02 #2
Topic: Evolution of the International Monetary System

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

(i) - Bimetallism
(ii) - Bretton Woods system
(iii) - Classical gold standard
(iv) - Flexible exchange rate regime
(v) - Interwar period

The chronological order that they actually occurred is:

A.
B.
C.
D.

Eun - Chapter 02 #3
Topic: Evolution of the International Monetary System

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

A.
B.
C.
D.

Eun - Chapter 02 #4
Topic: Bimetallism: Before 1875

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

A.
B.
C.
D.

Eun - Chapter 02 #5
Topic: Bimetallism: Before 1875

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.
B.
C.
D.

Eun - Chapter 02 #6
Topic: Bimetallism: Before 1875

7. Gresham's Law states that

A.
B.
C.
D.

Eun - Chapter 02 #7
Topic: Bimetallism: Before 1875

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.
B.
C.
D.

Eun - Chapter 02 #8
Topic: Bimetallism: Before 1875

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.
B.
C.
D.

Eun - Chapter 02 #9
Topic: Bimetallism: Before 1875

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.
B.
C.
D.

Eun - Chapter 02 #10
Topic: Bimetallism: Before 1875

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.
B.

Eun - Chapter 02 #11
Topic: Bimetallism: Before 1875

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.
B.
C.
D.

Eun - Chapter 02 #12
Topic: Bimetallism: Before 1875

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.
B.
C.
D.

Eun - Chapter 02 #13

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.
B.
C.

Eun - Chapter 02 #14
Topic: Bimetallism: Before 1875

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.
B.
C.
D.

Eun - Chapter 02 #15
Topic: Bimetallism: Before 1875

16. The United States adopted the gold standard in

A.
B.
C.
D.

Eun - Chapter 02 #16
Topic: Classical Gold Standard: 1875-1914

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

A.
B.
C.
D.

Eun - Chapter 02 #17
Topic: Classical Gold Standard: 1875-1914

18. One potential drawback of the gold standard is that

A.
B.
C.
D.

Eun - Chapter 02 #18
Topic: Classical Gold Standard: 1875-1914

19. The first full-fledged gold standard

A.
B.
C.
D.

Eun - Chapter 02 #19
Topic: Classical Gold Standard: 1875-1914

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

A.
B.
C.
D.

Eun - Chapter 02 #20
Topic: Classical Gold Standard: 1875-1914

21. Under a gold standard, if Britain exported more to France than France exported to Great Britain,

A.
B.
C.
D.

Eun - Chapter 02 #21
Topic: Classical Gold Standard: 1875-1914

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 should an ounce of gold be worth in U.S. dollars?

A.
B.
C.
D.

Eun - Chapter 02 #22
Topic: Classical Gold Standard: 1875-1914

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

A.
B.
C.
D.
E.

Eun - Chapter 02 #23
Topic: Classical Gold Standard: 1875-1914

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

A.
B.
C.
D.

Eun - Chapter 02 #24
Topic: Classical Gold Standard: 1875-1914

25. Suppose that the British pound is pegged to gold at £6 per ounce, whereas one ounce of gold is worth €12. Under the gold standard, any misalignment of the exchange rate will be automatically corrected by cross border flows of gold. Calculate the possible gains for buying €1,000, if the British pound becomes undervalued and trades for €1.80. (Assume zero shipping costs).
(Hint: Gold is first purchased using the devalued British pound from the Bank of England, then shipped to France and sold for €1,000 to the Bank of France).

A.
B.
C.
D.

Eun - Chapter 02 #25
Topic: Classical Gold Standard: 1875-1914

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.
B.
C.
D.

Eun - Chapter 02 #26
Topic: Classical Gold Standard: 1875-1914

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.
B.
C.

Eun - Chapter 02 #27
Topic: Classical Gold Standard: 1875-1914

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

A.
B.
C.
D.

Eun - Chapter 02 #28
Topic: Classical Gold Standard: 1875-1914

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

A.
B.
C.
D.

Eun - Chapter 02 #29
Topic: Interwar Period

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

A.
B.
C.
D.

Eun - Chapter 02 #30
Topic: Interwar Period

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.
B.
C.
D.

Eun - Chapter 02 #31
Topic: Interwar Period

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

A.
B.
C.
D.

Eun - Chapter 02 #32
Topic: Interwar Period

33. At the outbreak of World War I

A.
B.
C.
D.

Eun - Chapter 02 #33
Topic: Interwar Period

34. The core of the Bretton Woods system was the

A.
B.
C.
D.

Eun - Chapter 02 #34
Topic: Bretton Woods System: 1945-1972

35. The Bretton Woods system was named after

A.
B.
C.

Eun - Chapter 02 #35
Topic: Bretton Woods System: 1945-1972

36. The Bretton Woods agreement resulted in the creation of

A.
B.
C.
D.

Eun - Chapter 02 #36
Topic: Bretton Woods System: 1945-1972

37. The Triffin paradox

A.
B.
C.
D.

Eun - Chapter 02 #37
Topic: Bretton Woods System: 1945-1972

38. Under the Bretton Woods system

A.
B.
C.
D.

Eun - Chapter 02 #38
Topic: Bretton Woods System: 1945-1972

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.
B.
C.
D.

Eun - Chapter 02 #39
Topic: Bretton Woods System: 1945-1972

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.
B.
C.
D.

Eun - Chapter 02 #40
Topic: Bretton Woods System: 1945-1972

41. Under the Bretton Woods system,

A.
B.
C.
D.

Eun - Chapter 02 #41
Topic: Bretton Woods System: 1945-1972

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.
B.

Eun - Chapter 02 #42
Topic: Bretton Woods System: 1945-1972

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

A.
B.

Eun - Chapter 02 #43
Topic: Bretton Woods System: 1945-1972

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

A.
B.

Eun - Chapter 02 #44
Topic: Bretton Woods System: 1945-1972

45. Under the Bretton Woods system

A.
B.
C.
D.

Eun - Chapter 02 #45
Topic: Bretton Woods System: 1945-1972

46. Special Drawing Rights (SDR) are

A.
B.
C.
D.

Eun - Chapter 02 #46
Topic: Bretton Woods System: 1945-1972

47. The Bretton Woods system ended in

A.
B.
C.
D.

Eun - Chapter 02 #47
Topic: Bretton Woods System: 1945-1972

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

A.
B.
C.
D.

Eun - Chapter 02 #48
Topic: Bretton Woods System: 1945-1972

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

A.
B.
C.
D.

Eun - Chapter 02 #49
Topic: Bretton Woods System: 1945-1972

50. Put the following in correct date order:

A.
B.
C.
D.

Eun - Chapter 02 #50
Topic: The Flexible Exchange Rate System

51. Put the following in correct date order:

A.
B.
C.
D.

Eun - Chapter 02 #51
Topic: The Flexible Exchange Rate System

52. The G-7 is composed of

A.
B.
C.
D.

Eun - Chapter 02 #52
Topic: The Flexible Exchange Rate System

53. Gold was officially abandoned as an international reserve asset

A.
B.
C.
D.

Eun - Chapter 02 #53
Topic: The Flexible Exchange Rate System

54. Following the demise of the Bretton Woods system, the IMF

A.
B.
C.
D.

Eun - Chapter 02 #54
Topic: The Flexible Exchange Rate System

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

A.
B.
C.
D.

Eun - Chapter 02 #55
Topic: The Flexible Exchange Rate System

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

A.
B.
C.
D.

Eun - Chapter 02 #56
Topic: The Flexible Exchange Rate System

57. Under a purely flexible exchange rate system

A.
B.
C.
D.

Eun - Chapter 02 #57
Topic: The Flexible Exchange Rate System

58. A currency board arrangement is

A.
B.
C.
D.

Eun - Chapter 02 #58
Topic: Current Exchange Rate Arrangements

59. 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.
B.
C.
D.

Eun - Chapter 02 #59
Topic: Current Exchange Rate Arrangements

60. With regard to the current exchange rate arrangement between the U.S. and the U.K., it is best characterized as

A.
B.
C.
D.

Eun - Chapter 02 #60
Topic: Current Exchange Rate Arrangements

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

A.
B.
C.
D.

Eun - Chapter 02 #61
Topic: Current Exchange Rate Arrangements

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

A.
B.
C.
D.

Eun - Chapter 02 #62
Topic: European Monetary System

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

A.
<u>B.</u>
C.
D.

Eun - Chapter 02 #63
Topic: European Monetary System

64. 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.
B.
C.
<u>D.</u>

Eun - Chapter 02 #64
Topic: European Monetary System

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

A.
B.
C.
<u>D.</u>

Eun - Chapter 02 #65
Topic: European Monetary System

66. The Exchange Rate Mechanism (ERM) is

A.
B.
<u>C.</u>
D.

Eun - Chapter 02 #66
Topic: European Monetary System

67. The Maastricht Treaty

A.
B.
C.
D.

Eun - Chapter 02 #67
Topic: European Monetary System

68. The single European currency, the euro, was adopted by 11 member nations on January 1 of what year?

A.
B.
C.
D.

Eun - Chapter 02 #68
Topic: European Monetary System

69. Benefits from adopting a common European currency include

A.
B.
C.
D.

Eun - Chapter 02 #69
Topic: Euro and the European Monetary Union

70. Monetary policy for the countries using the euro as a currency is now conducted by

A.
B.
C.
D.

Eun - Chapter 02 #70
Topic: Euro and the European Monetary Union

71. Following the introduction of the euro, the national central banks of the euro-12 nations

A.
B.
C.
D.

Eun - Chapter 02 #71
Topic: Euro and the European Monetary Union

72. The main cost of European monetary union is

A.
B.
C.
D.

Eun - Chapter 02 #72
Topic: Euro and the European Monetary Union

73. The euro zone remarkably comparable to the United States in terms of

A.
B.
C.
D.

Eun - Chapter 02 #73
Topic: Euro and the European Monetary Union

74. Which country is NOT using the euro?

A.
B.
C.
D.

Eun - Chapter 02 #74
Topic: Euro and the European Monetary Union

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

A.
B.
C.
D.

Eun - Chapter 02 #75
Topic: Euro and the European Monetary Union

76. According to the theory of optimum currency areas,

A.
B.
C.
D.

Eun - Chapter 02 #76
Topic: Euro and the European Monetary Union

77. Willem Duisenberg, the first president of the European Central Bank, defined "price stability" as an annual inflation rate of

A.
B.
C.
D.

Eun - Chapter 02 #77
Topic: Euro and the European Monetary Union

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

A.
B.
C.
D.

Eun - Chapter 02 #78
Topic: Euro and the European Monetary Union

79. In the EU, there is a

A.
B.

Eun - Chapter 02 #79
Topic: Euro and the European Monetary Union

80. When money can move freely across borders, policy makers must choose between

A.
B.
C.
D.

Eun - Chapter 02 #80
Topic: Euro and the European Monetary Union

81. The Mexican Peso Crisis was touched off by

A.
B.
C.
D.

Eun - Chapter 02 #81
Topic: The Mexican Peso Crisis

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

A.
B.
C.
D.

Eun - Chapter 02 #82
Topic: The Mexican Peso Crisis

83. The Mexican peso crisis is significant in that

A.
B.
C.
D.

Eun - Chapter 02 #83
Topic: The Mexican Peso Crisis

84. The Asian Currency Crisis

A.
B.
C.
D.

Eun - Chapter 02 #84
Topic: The Asian Currency Crisis

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

A.
B.
C.
D.

Eun - Chapter 02 #85
Topic: The Asian Currency Crisis

86. 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, (3) An independent monetary policy. This difficulty is also known as

A.
B.
C.
D.

Eun - Chapter 02 #86
Topic: The Asian Currency Crisis

87. Another name for the incompatible trinity is the

A.
B.
C.
D.

Eun - Chapter 02 #87
Topic: The Asian Currency Crisis

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

A.
B.
C.
D.

Eun - Chapter 02 #88
Topic: The Asian Currency Crisis

89. During the 1990s there

A.
B.
C.
D.

Eun - Chapter 02 #89
Topic: The Argentine Peso Crisis

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

A.
B.
C.
D.

Eun - Chapter 02 #90
Topic: The Argentine Peso Crisis

91. Prior to the Argentine Peso Crisis

A.
B.
C.
D.

Eun - Chapter 02 #91
Topic: The Argentine Peso Crisis

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

A.
B.
C.
D.

Eun - Chapter 02 #92
Topic: Fixed versus Flexible Exchange Rate Regimes

93. A central bank can fix an exchange rate

A.
B.
C.
D.

Eun - Chapter 02 #93
Topic: Fixed versus Flexible Exchange Rate Regimes

94. A booming economy with a fixed or stable nominal exchange rate

A.
B.
C.
D.

Eun - Chapter 02 #94
Topic: Fixed versus Flexible Exchange Rate Regimes

95. Advantages of a flexible exchange rates include which of the following?

A.
B.
C.
D.

Eun - Chapter 02 #95
Topic: Fixed versus Flexible Exchange Rate Regimes

96. Advantages of a fixed exchange rates include

A.
B.
C.
D.

Eun - Chapter 02 #96

97. Generally speaking, a country would be more prone to asymmetric shocks

A.
B.
C.
D.

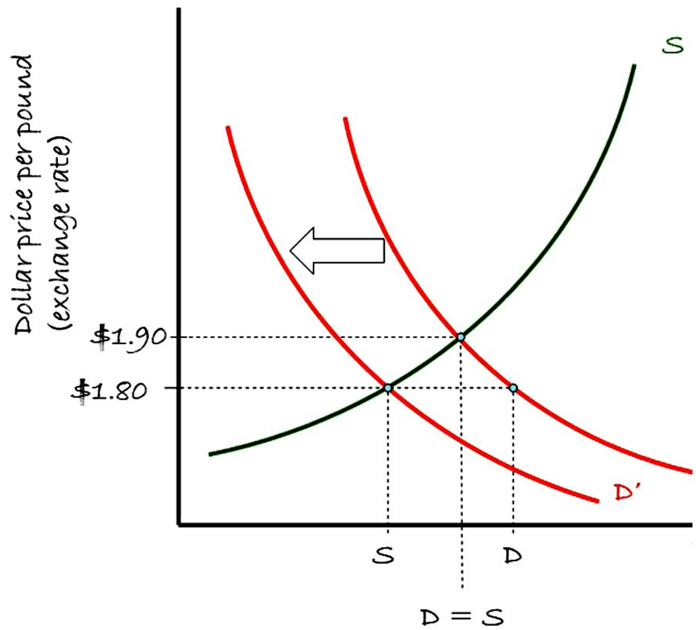
Eun - Chapter 02 #97
Topic: Fixed versus Flexible Exchange Rate Regimes

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

A.
B.
C.
D.

Eun - Chapter 02 #98
Topic: Fixed versus Flexible Exchange Rate Regimes

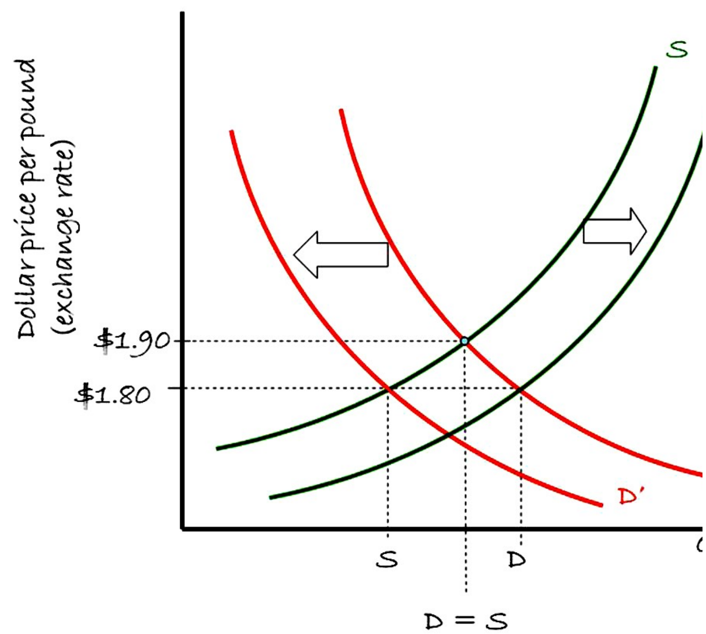
99. Consider the supply-demand framework for the British pound relative to the U.S. dollar shown in the nearby chart. The exchange rate is currently \$1.80 = £1.00. Which of the following is correct?



A.
B.
C.
D.

Eun - Chapter 02 #99
Topic: Fixed versus Flexible Exchange Rate Regimes

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



A.
B.
C.
D.

Eun - Chapter 02 #100
Topic: Fixed versus Flexible Exchange Rate Regimes

Chapter 02 International Monetary System Summary