c2

Student: ____

1. The international monetary system can be defined as the institutional framework within which:
A. international payments are made
B. movements of capital are accommodated
C. exchange rates among currencies are determined
D. all of these

2. 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. (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)

3. 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 a stable ratio
C. gold may be freely exported or imported
D. all of these

4. 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 of these

5. The euro currently in use is the common currency of
A. 11 EU member countries
B. 12 EU member countries
C. all EU member countries
D. all European countries

6. Special Drawing Rights (SDR) is:
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

7. The European Monetary System (EMS) has the following objectives:
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 these

8. A key element of the Jamaica Agreement from 1976 is
A. fixed exchange rates were declared unacceptable to the IMF members
B. pegged exchange rates were declared unacceptable to the IMF members
C. flexible exchange rates were declared acceptable to the IMF members
D. mixed exchange rates were declared acceptable to the IMF members

9. 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 these

10. Suppose that the British pound is pegged to gold at £6 per ounce, whereas one ounce of gold is worth FF12. Under the gold standard, any misalignment of the exchange rate will be automatically corrected by cross border flows of gold. Calculate the possible savings for buying FF1,000, if the British pound becomes undervalued and trades for FF1.80. (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 FF1,000 to the Bank of France).
A. £55.56
B. £65.56
C. £75.56
D. £85.56

11. Which of the following is NOT a benefit of a monetary union?
A. Elimination of exchange rate uncertainty
B. Reduced transactions costs
C. Ability to absorb economic shocks
D. Enhanced efficiency and competitiveness

12. Which of the following is a cost of a Monetary Union:
A. Loss of national monetary policy independence
B. Loss of exchange rate uncertainty
C. Increased transaction costs
D. Loss of efficiency

13. Which is the following is true for countries with fixed exchange rate regimes?
A. Central banks of these courtiers are required to maintain exchange reserves to cover 100% of the existing domestic currency
B. Centrals banks cannot use monetary policy to affect the economics fundamentals (such as inflation)
C. These countries must use currency board
D. None of these

14. If, under the Gold Standard, the price of 1oz of gold was \$15 or £5, what was the \$/£ exchange rate?
A. 0.25 \$/£
B. 0.33 \$/£
C. 1 \$/£
D. 3 \$/£

15. The key arguments for flexible exchange rates are:
A. Easier external adjustments and national policy autonomy
B. Easier internal adjustments and national policy autonomy
C. Easier external adjustments and easier international trade
D. Easier internal adjustments and easier international trade

16. Which of the following is NOT a responsibility of the European System of Central Banks:
A. To define and implement the common monetary policy of the Union
B. To define and implement the common fiscal policy of the Union
C. To conduct foreign exchange operations
D. To hold and manage the official foreign exchange reserves of the euro member states

17. Comparing the Euro-12 and the United States, which of the following statements is true?
A. The United States has a larger population than the Euro-12.
B. The United States has a larger GDP than the Euro-12.
C. Euro –12 has a larger share of World Trade than the United States.
D. Euro –12 has less international bonds outstanding than the United States.

18. Bretton-Woods system:
A. is an example of a fixed exchange rate regime
B. is an example of a flexible exchange rate regime
C. gave birth to the introduction of the Euro
D. was used to smooth transition from bimetallism to the classical gold standard

19. Before World War I, $20.67 was needed to buy one ounce of gold and FF 310.00 would also buy one ounce of gold. What was the exchange rate between the French franc and the US dollar?
A. FF0.0667/$
B. FF14.976/$
C. FF6407.7/$
D. $6407.7/FF

20. It is said that the gold-system was programmed to collapse in the long run. To satisfy the growing need for reserves, the United States had to run balance-of-payments deficits continuously. Yet, if the United States ran perennial balance-of-payments deficits, if would eventually impair the public confidence in the dollar. This dilemma I known as the
A. Triffin paradox
B. Triffin dilemma
C. Mundell paradox
D. Mundell dilemma

21. Before World War I, GBP 2.2474 was needed to buy one ounce of gold. FF 310.00 would also buy one ounce of gold. What was the exchange rate between the French franc and the British Pound?

22. Suppose that the British pound is pegged to gold at £6 per ounce and one ounce of gold is worth FF12. The exchange rate is FF1.8/£ and you have FF11, 000. How much profit can you make? (Assume zero shipping costs).

23. The Argentine peso was pegged to the US dollar at a rate of 1 to 1 until January 17, 2002. Argentina experienced trade deficits in prior to the collapse of the currency board. Graphically illustrate the external adjustment mechanism.

24. Can all of the following three conditions:
(1) fixed exchange rate,
(2) free international flow of capital, and
(3) independent monetary policy
Be satisfied simultaneously? Why?.

25. The Chinese renminbi is currently pegged to the US dollar at a rate of 8.28 to 1. The renminbi is considered to be undervalued (that is the exchange rate should be lower). Graphically illustrate the external adjustment mechanism. What happens to the Chinese foreign exchange reserves?

c2 Key

1. *(p. 26)* The international monetary system can be defined as the institutional framework within which:
A. international payments are made
B. movements of capital are accommodated
C. exchange rates among currencies are determined
D. all of these

Eun - Chapter 002 #1
Level: Medium

2. *(p. 27)* 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. (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)

Eun - Chapter 002 #2
Level: Medium

3. *(p. 28)* 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 a stable ratio
C. gold may be freely exported or imported
D. all of these

Eun - Chapter 002 #3
Level: Medium

4. *(p. 30-31)* 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 of these

Eun - Chapter 002 #4
Level: Medium

5. *(p. 40)* The euro currently in use is the common currency of
A. 11 EU member countries
B. 12 EU member countries
C. all EU member countries
D. all European countries

Eun - Chapter 002 #5
Level: Medium

6. *(p. 32)* Special Drawing Rights (SDR) is:
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

Eun - Chapter 002 #6
Level: easy

7. *(p. 38)* The European Monetary System (EMS) has the following objectives:
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 these

Eun - Chapter 002 #7
Level: Medium

8. *(p. 33)* A key element of the Jamaica Agreement from 1976 is
A. fixed exchange rates were declared unacceptable to the IMF members
B. pegged exchange rates were declared unacceptable to the IMF members
C. flexible exchange rates were declared acceptable to the IMF members
D. mixed exchange rates were declared acceptable to the IMF members

Eun - Chapter 002 #8
Level: Medium

9. *(p. 48)* 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 these

Eun - Chapter 002 #9
Level: hard

10. *(p. 28)* Suppose that the British pound is pegged to gold at £6 per ounce, whereas one ounce of gold is worth FF12. Under the gold standard, any misalignment of the exchange rate will be automatically corrected by cross border flows of gold. Calculate the possible savings for buying FF1,000, if the British pound becomes undervalued and trades for FF1.80. (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 FF1,000 to the Bank of France).
A. £55.56
B. £65.56
C. £75.56
D. £85.56

FF12/£2 = FF2/£1, therefore
FF1,000/2 = £500.00
FF1,000/1.80 = £555.56
Savings = £555.56 - 500.00
= £55.56

Eun - Chapter 002 #10
Level: hard

11. *(p. 41-42)* Which of the following is NOT a benefit of a monetary union?
A. Elimination of exchange rate uncertainty
B. Reduced transactions costs
C. Ability to absorb economic shocks
D. Enhanced efficiency and competitiveness

Eun - Chapter 002 #11
Level: hard

12. *(p. 43)* Which of the following is a cost of a Monetary Union:
A. Loss of national monetary policy independence
B. Loss of exchange rate uncertainty
C. Increased transaction costs
D. Loss of efficiency

Eun - Chapter 002 #12
Level: hard

13. *(p. 35)* Which is the following is true for countries with fixed exchange rate regimes?
A. Central banks of these courtiers are required to maintain exchange reserves to cover 100% of the existing domestic currency
B. Centrals banks cannot use monetary policy to affect the economics fundamentals (such as inflation)
C. These countries must use currency board
D. None of these

Eun - Chapter 002 #13
Level: Medium

14. *(p. 28)* If, under the Gold Standard, the price of 1oz of gold was $15 or £5, what was the $/£ exchange rate?
A. 0.25 $/£
B. 0.33 $/£
C. 1 $/£
D. 3 $/£

Eun - Chapter 002 #14
Level: easy

15. *(p. 46)* The key arguments for flexible exchange rates are:
A. Easier external adjustments and national policy autonomy
B. Easier internal adjustments and national policy autonomy
C. Easier external adjustments and easier international trade
D. Easier internal adjustments and easier international trade

Eun - Chapter 002 #15
Level: Medium

16. *(p. 40)* Which of the following is NOT a responsibility of the European System of Central Banks:
A. To define and implement the common monetary policy of the Union
B. To define and implement the common fiscal policy of the Union
C. To conduct foreign exchange operations
D. To hold and manage the official foreign exchange reserves of the euro member states

Eun - Chapter 002 #16
Level: easy

17. *(p. 46)* Comparing the Euro-12 and the United States, which of the following statements is true?
A. The United States has a larger population than the Euro-12.
B. The United States has a larger GDP than the Euro-12.
C. Euro –12 has a larger share of World Trade than the United States.
D. Euro –12 has less international bonds outstanding than the United States.

Eun - Chapter 002 #17
Level: Medium

18. *(p. 30)* Bretton-Woods system:
A. is an example of a fixed exchange rate regime
B. is an example of a flexible exchange rate regime
C. gave birth to the introduction of the Euro
D. was used to smooth transition from bimetallism to the classical gold standard

Eun - Chapter 002 #18
Level: Medium

19. *(p. 28)* Before World War I, \$20.67 was needed to buy one ounce of gold and FF 310.00 would also buy one ounce of gold. What was the exchange rate between the French franc and the US dollar?
A. FF0.0667/\$
B. FF14.976/\$
C. FF6407.7/\$
D. \$6407.7/FF

FF310/\$20.67 = FF 14.976/\$

Eun - Chapter 002 #19
Level: easy

20. *(p. 31)* It is said that the gold-system was programmed to collapse in the long run. To satisfy the growing need for reserves, the United States had to run balance-of-payments deficits continuously. Yet, if the United States ran perennial balance-of-payments deficits, if would eventually impair the public confidence in the dollar. This dilemma I known as the
A. Triffin paradox
B. Triffin dilemma
C. Mundell paradox
D. Mundell dilemma

Eun - Chapter 002 #20
Level: easy

21. Before World War I, GBP 2.2474 was needed to buy one ounce of gold. FF 310.00 would also buy one ounce of gold. What was the exchange rate between the French franc and the British Pound?

FF310/GBP2.2474 = FF137.9372/GBP

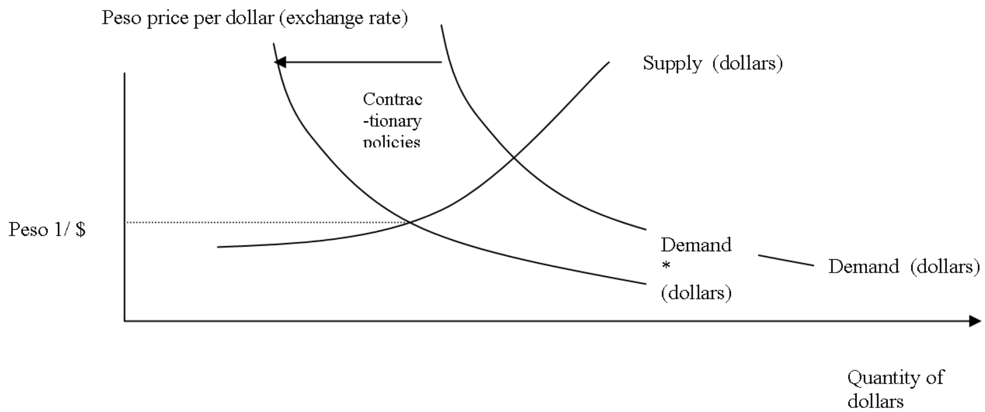
Eun - Chapter 002 #21

22. Suppose that the British pound is pegged to gold at £6 per ounce and one ounce of gold is worth FF12. The exchange rate is FF1.8/£ and you have FF11, 000. How much profit can you make? (Assume zero shipping costs).

Exchange FF to £ at current exchange rate: FF11,000/(FF1.8/£) = £6,111
then use £ to buy gold £6,111 /(£6/ounce) = 1,018.52 ounces,
sell the gold for FF 1,018.52ounces*FF12/ounce = FF12,222.22
profit: FF12,222.22 - FF11,000 = FF1,222.22

Eun - Chapter 002 #22

23. The Argentine peso was pegged to the US dollar at a rate of 1 to 1 until January 17, 2002. Argentina experienced trade deficits in prior to the collapse of the currency board. Graphically illustrate the external adjustment mechanism.



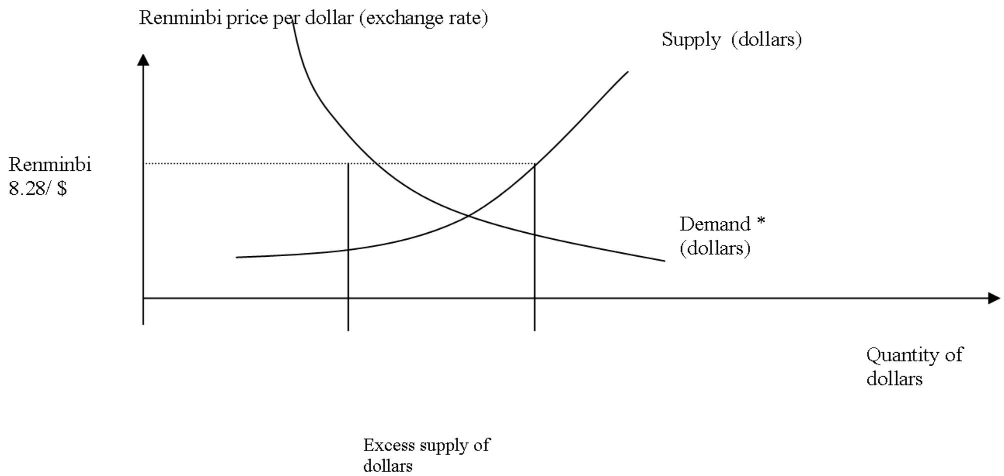
Eun - Chapter 002 #23

24. *(p. 51)* Can all of the following three conditions:
(1) fixed exchange rate,
(2) free international flow of capital, and
(3) independent monetary policy
Be satisfied simultaneously? Why?.

A country can attain only two of these three conditions. If a country would like to maintain a fixed exchange rate (which is considered beneficial for international trade) and an independent monetary policy (to pursue its own domestic economic goals), it needs to restrict the international flow of capital. If the country does allow also free international flow of capital, the country's currency is subject to speculative attacks and currency crises.

Eun - Chapter 002 #24

25. The Chinese renminbi is currently pegged to the US dollar at a rate of 8.28 to 1. The renminbi is considered to be undervalued (that is the exchange rate should be lower). Graphically illustrate the external adjustment mechanism. What happens to the Chinese foreign exchange reserves?



At an exchange rate of renminbi 8.28/$, there will be an excess supply of the dollar which the Chinese government can buy up. Therefore, the Chinese foreign exchange reserves are increasing.

Eun - Chapter 002 #25

c2 Summary

Category	*# of Questions*
Eun - Chapter 002	25
Level: easy	5
Level: hard	4
Level: Medium	11