

Chapter 10

Student: _____

1. According to the opening case on Argentina, as with most IMF programs, the focus was on all of these except
 - A. propping up its currency.
 - B. stabilizing the value of the Argentina currency.
 - C. restructuring the economy to reduce government debt.
 - D. bringing about a change in regime.
 - E. none of these answers is correct
2. The world's four major trading currencies are all free to float against each other. They include all of these except
 - A. the British pound
 - B. the Japanese yen
 - C. the Spanish peso
 - D. the U.S. dollar
 - E. the European Euro
3. Institutional arrangements that countries adopt to govern exchange rates refers to
 - A. floating interest rate.
 - B. international exchange rate.
 - C. fixed inflation rate.
 - D. dirty float.
 - E. international monetary system
4. Critics of the IMF program in Argentina argued that:
 - A. the culture of corruption was too deeply rooted in Argentina to change
 - B. foreign investors would not return to Argentina simply because of the IMF program
 - C. the global economic slowdown limited the impact of the IMF programs
 - D. Argentina's politics would were too nationalistic and would not allow a foreign institution to interfere in the country
 - E. the austerity program would only make the crisis worse
5. The Bretton Woods conferences occurred in _____ and established the basic framework for the post-World War II international monetary system.
 - A. 1944
 - B. 1959
 - C. 1968
 - D. 1988
 - E. 1999
6. The Bretton Woods system called for _____ exchange rates against the U.S. dollar.
 - A. variable
 - B. floating
 - C. fixed
 - D. fluctuating
 - E. market

7. Under the exchange rate system established by the Bretton Woods agreement, the value of most currencies in terms of _____ was fixed for long periods and was allowed to change only under a specific set of circumstances.
 - A. British pound
 - B. Japanese yen
 - C. U.S. dollars
 - D. German deutsche mark
 - E. European Euro
8. The Bretton Woods conference created two major international institutions. These are
 - A. the International Monetary Fund and the World Bank.
 - B. the World Trade Organization and the United Nations.
 - C. the World Currency Exchange and the World Bank.
 - D. the Bretton Woods Monetary Fund and the World Trade Organization.
 - E. the European Bank of Reconstruction and Development and the World Trade Organization
9. The Bretton Woods system of fixed exchange rates
 - A. has continued to be in force since it was adopted.
 - B. collapsed in 1973.
 - C. collapsed shortly after it was adopted.
 - D. collapsed shortly after it was adopted, but has been reinstated and is in effect today.
 - E. collapsed because of the Jamaica Agreement
10. As stipulated by the Bretton Woods conference, the goal of the International Monetary Fund was to:
 - A. maintain order in the international monetary system
 - B. establish a world currency
 - C. promote development
 - D. set interest rates in members nations
 - E. establish economic guidelines for countries
11. The acronym IMF stands for
 - A. International Monopoly Function.
 - B. Interval Monetary Fluctuations.
 - C. Interagency Monetary Function.
 - D. International Monetary Fund.
 - E. International Monetary Formation
12. As stipulated by the Bretton Woods conference, the goal of the World Bank was to
 - A. maintain order in the international monetary system.
 - B. promote FDI in developing countries
 - C. set interest rates in member states.
 - D. establish a world currency.
 - E. promote economic development.
13. The official name for the World Bank is _____.
 - A. The International Monetary Fund
 - B. The United Nations Fund
 - C. The United Nations Monetary Fund
 - D. The Bretton Woods Agreement
 - E. The International Bank for Reconstruction and Development
14. The Bretton Woods system of fixed exchange rates collapsed in 1973. Since then the many of the world's countries have operated with a
 - A. mixed system.
 - B. random monetary system.
 - C. regulated standard system.
 - D. monitored spot market.
 - E. managed-float system

15. Pegging currencies to gold and guaranteeing convertibility is known as what?
- A. gold standard.
 - B. federal reserve.
 - C. industrial revolution.
 - D. balance-of-trade equilibrium.
 - E. Bretton-Woods Agreement
16. The gold standard has its origin in
- A. the use of the word "gold" to refer to items of value.
 - B. the use of gold coins as a medium of exchange.
 - C. the inherent value placed on gold stones as objects of beauty and value.
 - D. the use of gold bricks as a medium of exchange between countries.
 - E. the resistance of gold to depreciation in value
17. The gold standard worked reasonably well until when?
- A. the 1870s
 - B. the 1890s
 - C. World War I
 - D. World War II
 - E. 1973
18. By 1880, most of the world's major trading nations, including Great Britain, Germany, Japan, and the United States, had adopted the
- A. diamond standard.
 - B. gold standard.
 - C. federal reserve standard.
 - D. platinum standard.
 - E. fixed exchange rate system
19. The great strength claimed for the gold standard was that it contained a powerful mechanism for simultaneously achieving a(n) _____ for all countries.
- A. balance-of-trade equilibrium
 - B. economic stability
 - C. interest rate parity
 - D. equal tariff levels
 - E. currency convertibility
20. A country is said to be a balance-of-trade equilibrium when
- A the income that its residents earn from the export of manufactured goods equals the income that its residents earn from the export of services.
 - B. the income that its residents earn from exports is equal to the money that its residents pay for imports.
 - C the income that its residents earn from exports in the current fiscal year is equal to the income that its residents earned from exports in the previous fiscal year.
 - D the income that its residents earn from the export of raw materials is equal to the income that its residents earn from the export of manufactured goods.
 - E. the income that its residents earn from the export of goods and services is equal to the amount residents pay for foreign debt
21. The gold standard was temporarily abandoned by Canada in
- A. 1870.
 - B. 1889.
 - C. 1914.
 - D. 1924.
 - E. 1934

22. The United States returned to the gold standard in
- A. 1870
 - B. 1919
 - C. 1925
 - D. 1932
 - E. 1934
23. Most countries abandoned convertibility and the gold standard in 1931 because
- A. there was a sharp decline in the amount of gold mined
 - B. the Bretton Woods Agreement was signed
 - C. of the cycle of devaluations resulting from the Great Depression
 - D. of the collapse of the Weimar Republic and the rise of Germany
 - E. of the preference for a managed float system
24. In 1944, the dollar remained convertible into gold at _____ per ounce.
- A. \$22.
 - B. \$29.
 - C. \$35.
 - D. \$37
 - E. \$40.
25. One of the changes that was a result of Canada's return to the gold standard in 1926 was that
- A. chartered banks could no longer hold gold in their reserves
 - B. the price of gold was allowed to fluctuate according to demand and supply
 - C. gold mining was made a monopoly of the government
 - D. the Canadian dollar was devalued to reflect the price of gold
 - E. currency provided by the chartered banks lost its status as legal tender.
26. The gold standard broke down in the _____ as countries engaged in competitive devaluations.
- A. 1910s
 - B. 1920s
 - C. 1930s
 - D. 1950s
 - E. 1970s
27. The result of Canada's suspension of the gold standard was
- A. the end of the gold standard
 - B. a trade surplus because of the lower value of the Canadian dollar
 - C. the final end of mercantilism
 - D. the raising of trade and convertibility restrictions
 - E. a collapse in the confidence in the Canadian monetary system
28. In 1944, at the height of World War II, representatives from 44 countries met at _____ to design a new international monetary system.
- A. Richmond, Virginia
 - B. San Francisco, California
 - C. Bretton Woods, New Hampshire
 - D. Morris Plains, New Jersey
 - E. Yalta, USSR
29. The major problem with the _____ was that no multinational institution could stop countries from engaging in competitive devaluations.
- A. metal standard
 - B. federal reserve standard
 - C. premium standard
 - D. gold standard
 - E. global trade system

30. The Bretton Woods agreement called for
- A. variable exchange rates.
 - B. fixed exchange rates.
 - C. freely floating exchange rates.
 - D. a set of "managed" floating exchange rates.
 - E. currency boards
31. The Bretton Woods system of fixed exchange rates was established in 1944. The central currency of this system was the
- A. French Franc.
 - B. German Deutsche Mark.
 - C. U.S. Dollar.
 - D. British Pound.
 - E. Swiss Franc
32. The Bretton Woods agreement called for a system of fixed exchange rates that would be policed by the
- A. World Bank.
 - B. United Nations.
 - C. League of Nations.
 - D. International Monetary Fund.
 - E. United States
33. Under the Bretton Woods system, which currency served as the base currency?
- A. Japanese yen
 - B. British pound
 - C. French franc
 - D. U.S. dollar
 - E. Swiss Franc
34. The IMF Articles of Agreement were heavily influenced by all of the following except
- A. the worldwide financial boom.
 - B. competitive devaluations.
 - C. trade wars.
 - D. high unemployment.
 - E. hyperinflation
35. A fixed exchange rate regime imposes discipline in two ways: (1) the need to maintain a fixed exchange rate puts a brake on competitive devaluations and brings stability to the world trade environment and (2) a fixed exchange rate regime imposes
- A. social discipline on countries, thereby increasing the standard of living.
 - B. economic discipline on countries, thereby increasing gross national product.
 - C. political discipline on countries, thereby curtailing global opportunism.
 - D. monetary discipline on countries, thereby curtailing price inflation.
 - E. currency stability, thereby curtailing trade wars
36. Monetary discipline was a central objective of Bretton Woods, and a rigid policy of fixed exchange rates was _____
- A. put into force
 - B. seen as too inflexible
 - C. tied to gold
 - D. tied to inflation
 - E. tied to monetary supply

37. An increase in money supply without an increase in productivity typically leads to an increase in
- A. employment.
 - B. price inflation.
 - C. gross national product.
 - D. national standard of living.
 - E. price deflation
38. Fixed exchange rates are seen as a mechanism for achieving the following two objectives
- A. controlling inflation and economic discipline.
 - B. controlling unemployment and political discipline.
 - C. controlling economic stability and increasing gross national product.
 - D. controlling political stability and economic discipline.
 - E. controlling currency speculation and trade imbalances
39. The _____ were heavily influenced by the world wide financial collapse, competitive devaluations, trade wars and high employment.
- A. World Bank Development Program
 - B. IMF export assistance
 - C. fixed parities
 - D. adjustable parities
 - E. IMF Articles of Agreement
40. _____ are seen as a mechanism for controlling inflation and imposing economic discipline on countries.
- A. Fixed exchange rates
 - B. Floating exchange rates
 - C. Global exchange rates
 - D. Transnational exchange rates
 - E. Managed float systems
41. In some cases, a country's attempts to reduce its money supply growth and correct a persistent _____ deficit could force the country into recession and create high unemployment.
- A. balance-of-payments
 - B. fixed parity
 - C. floating exchange rate
 - D. fixed exchange rate
 - E. bank
42. Two major features of the International Monetary Fund (IMF) Articles of Agreement fostered flexibility within the monetary system. These features included IMF lending facilities and:
- A. IMF export assistance
 - B. fixed parties
 - C. a return to the gold standard
 - D. adjustable parities
 - E. externally imposed monetary discipline
43. Although monetary discipline was a central objective of the Bretton Woods agreement, it was recognized that a _____ of fixed exchange rates would be too inflexible.
- A. relaxed policy
 - B. rigid policy
 - C. lending policy
 - D. balanced policy
 - E. managed policy

44. The IMF's system of adjustable parities, under the auspices of the Bretton Woods agreement, allowed for the devaluation of a country's currency of up to _____ if the IMF agreed that the country's balance of payments is in fundamental disequilibrium.
- A. 10%
 - B. 15%
 - C. 20%
 - D. 25%
 - E. 30%
45. The International Bank for Reconstruction and Development (IBRD) is the official name for the _____.
- A. World Trade Organization.
 - B. World Bank.
 - C. International Monetary Fund.
 - D. Global-Regional Bank.
 - E. International Development Bank
46. In the context of the global monetary system, the IBRD stands for the _____.
- A. International Bank for Rents and Deposits
 - B. International Bureau for Restraining Devaluations
 - C. International Bank for Reconstruction and Development
 - D. International Bureau for Research and Development
 - E. International Bank Depository for Reconciliation of Deposits
47. The term fundamental disequilibrium was not defined in the _____, but it was intended to apply to countries that had suffered permanent adverse shifts in the demand for their products.
- A. IMF Articles of Agreement
 - B. IMF export assistance
 - C. Fixed parities
 - D. Adjustable parities
 - E. World Bank's Charter
48. The initial mission of the World Bank was to _____.
- A. help repay the allies war debt
 - B. help small businesses establish export operations.
 - C. provide letters of credit on behalf of first-time exporters.
 - D. provide development loans for developing countries in Asia.
 - E. help finance the re-building of Europe's economy by providing low-interest loans.
49. Under the _____, money is raised through bond sales in the international capital market.
- A. International Monetary Fund
 - B. World Bank
 - C. World Trade Organization
 - D. International Bank for Reconstruction and Development
 - E. International Development Agency
50. Helping finance the building of Europe's economy after World War II by providing low-interest loans was the initial mission of _____.
- A. The World Trade Organization.
 - B. The World Bank.
 - C. The European National Bank.
 - D. The International Monetary Fund.
 - E. United States Treasury

51. Which of the following statements accurately depicts what happened to the Bretton Woods system of fixed exchange rates?
- A. The system never got off the ground, and collapsed in the late 1940s.
 - B. The system worked well for about a decade, then collapsed in the mid-1950s.
 - C. The system began to show signs of strain in the 1960s, and finally collapsed in 1973.
 - D. The system remained in place until the early 1990s when an international conference was convened in Finland to develop a managed float system.
 - E. The system was replaced by the Jamaica Agreement at the urging of the U.S.
52. The Bretton Woods system of fixed exchange rates collapsed in 1973, and since then most countries have practiced a
- A. stepwise fixed rate exchange system.
 - B. more rigid and enforceable fixed exchange rate system.
 - C. managed-float system.
 - D. combination of managed float systems and fixed exchange rate systems.
 - E. pegged exchange rate system
53. Most economists trace the break-up of the fixed exchange rate system to
- A. the U.S. macroeconomic policy package of 1965-1968.
 - B. a worldwide recession.
 - C. Japanese economic policy in the mid 1970s.
 - D. European economic policy in the 1960s and 1970s.
 - E. Japanese and German trade surpluses with the U.S.
54. In the context of the global money system, in August 1971 President Nixon made the following two announcements: (1) a new 10 percent tax on imports would remain in effect until the trading partners of the U.S. agreed to revalue their currency against the dollar and (2)
- A. the dollar was no longer convertible into gold.
 - B. the U.S. would no longer support the World Bank.
 - C. the U.S. planned to devalue its currency by 20 percent.
 - D. the U.S. planned to call for a second Bretton Woods conference.
 - E. the U.S. would sell its entire gold reserve
55. The Bretton Woods system had an Achilles' heel: The system could not work if its key currency, the U.S. dollar, was
- A. overvalued.
 - B. undervalued.
 - C. under speculative attack.
 - D. subject to a high U.S. inflation rate.
 - E. not based on the gold standard
56. The _____ exchange rate regime that followed the collapse of the fixed exchange rate system was formalized in January 1976 when IMF members met in Jamaica and agreed to the rules for the international system that are in place today.
- A. floating
 - B. quasi-fixed
 - C. open
 - D. closed
 - E. managed
57. While the membership of the IMF had been expanded to 185 countries, contributions have increased from \$41 billion to
- A. \$75 billion.
 - B. \$175 billion.
 - C. \$263 billion.
 - D. \$285 billion
 - E. \$300 billion.

58. The three main elements of the Jamaica Agreement were
- A the International Monetary Fund was established; gold was abandoned as a reserve asset; and floating rates were declared unacceptable.
 - B floating rates were declared acceptable; gold was abandoned as a reserve asset; and total annual IMF quotas were increased to \$41 billion.
 - C floating rates were declared unacceptable; the International Monetary Fund was abolished; and the World Bank was established.
 - D fixed rates were declared acceptable, gold was accepted as a reserve asset; and the total annual IMF quotas were increased to \$41 billion.
 - E. all of these answers are correct
59. Which of the following was not one of the main elements of the Jamaica Agreement?
- A. The establishment of the International Monetary Fund
 - B. Floating rates were declared acceptable
 - C. Total annual IMF quotas were increased to \$41 billion
 - D. Gold was abandoned as a reserve asset
 - E. Gold was returned to its members at current market rates
60. During the oil crisis in 1971, the Organization of Petroleum Exporting Countries increased the price of oil by _____.
- A. 2 times
 - B. 2.5 times
 - C. 3 times
 - D. 4 times
 - E. 5 times
61. The partial collapse of the European Monetary System occurred in
- A. 1980.
 - B. 2001.
 - C. 1992.
 - D. 1998.
 - E. 1973
62. The fall in the value of the U.S. dollar against the German mark between 1985 and 1987 was caused by a combination of
- A. government intervention and market forces.
 - B. high inflation and high unemployment.
 - C. a trade deficit and high consumer debt.
 - D. worldwide inflation and high unemployment.
 - E. the oil embargo and deflation
63. Under a floating exchange rate regime, market forces have produced
- A. a near fixed U.S. dollar exchange rate.
 - B. a predictable U.S. dollar exchange rate.
 - C. a stable U.S. dollar exchange rate.
 - D. a volatile U.S. dollar exchange rate.
 - E. a controlled dynamic U.S. dollar exchange rate
64. The frequency of government interventions in the foreign exchange markets explains why the current system is often referred to as a managed-float system or a
- A. functional float system.
 - B. statutory float system.
 - C. dirty float system.
 - D. unwieldy float system.
 - E. controlled float system

65. The case for floating exchange rates has two main elements. These are
- A. monetary policy autonomy and automatic trade balance adjustments.
 - B. sporadic trade balance adjustments and monetary policy autonomy.
 - C. the impracticality of the gold standard and monetary policy control.
 - D. monetary policy control and sporadic trade balance adjustments.
 - E. monetary policy interdependence and autonomic trade balance adjustments
66. _____ can lead to inflation, which puts downward pressure on fixed exchange rates.
- A. Monetary restrictions
 - B. Monetary standard
 - C. Sporadic trade balance adjustments
 - D. Monetary policy control
 - E. Monetary expansion
67. It is argued that a _____ exchange rate regime gives countries monetary policy autonomy.
- A. restricted
 - B. forward
 - C. fixed
 - D. floating
 - E. managed float
68. Under a _____ exchange rate regime, a country's ability to expand or contract its money supply as it sees fit is limited by the need to maintain exchange rate parity.
- A. forward
 - B. fixed
 - C. narrow
 - D. floating
 - E. managed float
69. _____ also adds to the uncertainty surrounding future currency movements that characterizes floating exchange rate regimes.
- A. The impracticality of the gold standard
 - B. Monetary policy autonomy
 - C. Trade balance Adjustments
 - D. Speculation
 - E. Market forces
70. Advocates of a _____ exchange rate regime argue that removal of the obligation to maintain exchange rate parity restores monetary control to a government.
- A. fixed
 - B. floating
 - C. narrow
 - D. forward
 - E. managed float
71. Floating exchange rates are determined by
- A. market forces.
 - B. the IMF.
 - C. the World Bank.
 - D. an international commission on exchange rate parity.
 - E. national banks

72. Under the Bretton Woods system, if a country developed a permanent deficit in its balance of trade that could not be corrected by domestic policy, the IMF would agree to a
- A. currency devaluation.
 - B. increase in employment.
 - C. increase in output.
 - D. increase in interest rates.
 - E. increased tariffs
73. The case for fixed exchange rates rests on arguments about monetary discipline, speculation, the lack of connection between the trade balance and exchange rates, and _____.
- A. automatic trade balance adjustments
 - B. uncertainty
 - C. the impracticality of the gold standard
 - D. monetary policy autonomy
 - E. the importance of the U.S. dollar
74. According to our textbook, those in favour of floating exchange rates argue that floating rates
- A. discourage speculation.
 - B. help confuse trade imbalances.
 - C. decrease uncertainty
 - D. have no effect on trade imbalances.
 - E. help adjust trade imbalances.
75. What percent of the IMF's 185 members allow their currency to float freely?
- A. 15 percent
 - B. 19 percent
 - C. 32 percent
 - D. 41 percent
 - E. 20 percent
76. "Free float" exchange rates are determined by
- A. the IMF.
 - B. market forces.
 - C. governments.
 - D. the World Bank.
 - E. national banks
77. Under a pegged exchange rate regime, a country will peg the value of its currency to
- A. an index of world currencies maintained by the World Bank.
 - B. that of a major currency.
 - C. an index of "peer nation" currencies.
 - D. an index of its historic currency rates.
 - E. the index of its major trading partners' currencies
78. Pegged exchange rates are popular among many of the world's
- A. industrialized nations.
 - B. largest nations.
 - C. smaller nations.
 - D. communist nations.
 - E. developing nations
79. There is some evidence that adopting a pegged exchange rate regime
- A. reduces unemployment in a country.
 - B. moderates inflationary pressure in a country.
 - C. increases global GNP.
 - D. decreases global GNP.
 - E. increases GNI growth within the country

80. A IMF study concluded that countries with pegged exchange rate regimes had an average annual inflation rate of _____, compared with 14 percent for intermediate regimes and 16 percent for floating regimes.
- A. 4 percent
 - B. 18 percent
 - C. 14 percent
 - D. 8 percent
 - E. 0.8 percent
81. A country that introduces a(n) _____ commits itself to converting its domestic currency on demand into another currency at a fixed exchange rate.
- A. currency board
 - B. monetary review commission
 - C. exchange rate review commission
 - D. certificate board
 - E. IMF pegged rate regime
82. A(n) _____ is a governing body that manages the value of a currency by holding foreign currency reserves equal to the amount of domestic currency issued at a fixed exchange rate.
- A. exchange rate committee
 - B. currency board
 - C. certificate board
 - D. monetary review commission
 - E. national bank currency committee
83. Over the past 30 years, the activities of the IMF have
- A. expanded.
 - B. declined.
 - C. expanded in developed countries but declined in underdeveloped countries.
 - D. expanded in underdeveloped countries but declined in developed countries.
 - E. been increasingly criticized as being an instrument of the U.S. government
84. No major industrial country has borrowed funds from the IMF since the
- A. mid-1940s
 - B. mid-1950s.
 - C. mid-1960s.
 - D. mid-1970s.
 - E. mid-1980s.
85. One of the problems associated with currency boards is that if local inflation rates remain higher than the inflation rate in the country to which the currency is pegged than
- A. the country's currency can come under attack by speculators
 - B. the country's interest rates can only be set with the agreement of the country to which the currency is pegged
 - C. the country's monetary demand may increase faster than monetary supply
 - D. the country's trade surplus may increase causing trading partners to apply tariffs and other trade barriers
 - E. the country's currency may become over valued and reduce the country's international competitiveness
86. A _____ occurs when a speculative attack on the exchange value of a currency results in a sharp depreciation in the value of the currency or forces authorities to expend large volumes of international currency reserved and sharply increase interest rates to defend the prevailing exchange rate.
- A. currency crisis
 - B. monetary disruption
 - C. banking crisis
 - D. currency disruption
 - E. liquidity crisis

87. A _____ refers to a situation in which a loss of confidence in the banking system leads to a run on banks, as individuals and companies withdraw their deposits.
- A. banking crisis
 - B. currency crisis
 - C. federal reserve crisis
 - D. monetary crisis
 - E. debt crisis
88. A _____ occurs when a country cannot service its foreign debt obligations.
- A. banking crisis
 - B. currency crisis
 - C. monetary crisis
 - D. foreign debt crisis
 - E. liquidity crisis
89. Which of the following is not among the four main crises that have been of particular significance for the IMF?
- A. The Third World debt crisis of the 1980s
 - B. The U.S. recession of the 1980s
 - C. The crisis experienced by Russia as that country moved towards a market-based economic system
 - D. The 1995 Mexican currency crisis
 - E. The Asian crisis
90. The IMF's involvement in Russia came about as the result of
- A. a sharp increase in the value of the Russian rouble.
 - B. a persistent decline in the value of the Russian rouble.
 - C. high unemployment in Russia.
 - D. dangerously low inflation in Russia.
 - E. Russia's oil and gas reserves
91. The financial crisis that erupted across _____ during the fall of 1997 has emerged as the biggest challenge the IMF has had to deal with.
- A. Eastern Europe
 - B. Southeast Asia
 - C. Central America
 - D. South America
 - E. the mid-east
92. A large number of Argentina's problems came from IMF problems that made an existing recession worse.
True False
93. As with most IMF programs, the focus in Argentina was on the government to adopt a strict program to balance its budget.
True False
94. When the foreign exchange market determines the relative value of a currency, it is said that the country is adhering to a pegged exchange rate.
True False
95. The Bretton Woods system called for fixed exchange rates against the U.S. dollar.
True False
96. The agreement reached at Bretton Woods established two multinational institutions-The World Trade Organization and the World Bank
True False

97. Since the Bretton Woods system of floating exchange rates collapsed in 1973, the world has operated with a fixed exchange rate system.
True False
98. The gold standard is the practice of pegging currencies to gold and guaranteeing convertibility.
True False
99. By 1980 most of the world's trading nations had adopted the gold standard.
True False
100. The great strength claimed for the gold standard was that it contained a powerful mechanism for simultaneously achieving balance-of-trade equilibrium by all countries.
True False
101. The task of the IMF was to maintain order in the international monetary system, as stipulated by the Bretton Woods agreement.
True False
102. The Bretton Woods agreement resulted in a commitment not to use devaluation as a weapon of competitive trade policy.
True False
103. Although monetary discipline was a central objective, the Bretton Woods agreement recognized that a rigid policy of fixed exchange rates would be too inflexible.
True False
104. Two features of the IMF helped build in limited flexibility: IMF lending facilities and adjustable parities.
True False
105. The official name of the World Bank is the International Bank for Reconstruction and Development.
True False
106. Most economists trace the break-up of the fixed exchange rate system to the U.S. macro economic policy package of 1965-1968.
True False
107. The Bretton Woods agreement had an Achilles' heel: the system could not work if its key currency, the British pound, was under speculative attack.
True False
108. Revising the IMF's Articles of Agreement to reflect the new reality of floating exchange rates was the purpose of the Jamaica meeting.
True False
109. After Jamaica, the IMF continued its role of helping countries cope with macroeconomic and exchange rate problems, albeit within the context of a radically different exchange rate regime.
True False
110. Market forces have produced a volatile dollar exchange under a floating exchange rate regime.
True False
111. The Oil crisis of 1979 is one reason for the volatility of exchange rates since March of 1973.
True False
112. The rise in value of the dollar between 1980 and 1985 is particularly interesting because it occurred when the United States was running a large and growing trade deficit.
True False

113. Monetary policy autonomy and automatic trade balance adjustments are the two main elements of the case for fixed exchange rates.
True False
114. It is argued that a floating exchange rate regime gives countries monetary policy autonomy.
True False
115. Removal of the obligation to maintain exchange rate parity restores monetary control to a government is the argument of advocates of a floating exchange rate regime.
True False
116. Under the Bretton Woods system, if a country developed a permanent deficit in its balance of trade that could not be corrected by domestic policy, the World Bank would agree to currency devaluation.
True False
117. The case for fixed exchange rates rests on arguments about monetary discipline, speculation, uncertainty, and the lack of connection between the trade balance and exchange rates.
True False
118. Critics of a floating exchange rate regime argue that speculation causes stability in exchange rates.
True False
119. What is the difference between a free floating exchange rate and a managed or dirty float system?
120. Describe what happened at the 1944 Bretton Woods conference. Are the monetary principles established by the Bretton Woods conference still in effect today?
121. Describe the role of the World Bank in the international community. How does the World Bank contribute to the overall stability of the global monetary system?
122. How do exchange rates affect individual international businesses? Do international businesses like stable rates or volatile rates? Explain your answer.

123. Describe the difference between fixed and floating exchange rates. Which is better? Explain your answer.
124. What is a pegged exchange rate? How does it work? What is the advantage of a pegged exchange rate regime?
125. How has the rise in the Canadian dollar against the U.S. dollar affected the following businesses; a. Automobile assembly plants in Canada, b. an importer of Chinese manufactured clothing, c. a software developer with a branch plant in India, d. a Canadian tourist traveling to France.
126. Explain what is a moral hazard when it is used as a criticism of IMF policies.
127. Explain the reasons behind the collapse of the South Korean Won during the Asian financial crisis.

128. An idea that has been raised in the past among some Canadian economists and businesses is whether to abandon the Canadian dollar and just use the U.S. dollar. Their arguments centre around the degree to which our two economies are integrated, the reduction in costs and the greater price transparency and ease of trade. What is your position on this? Explain.

129. The Bank of Canada Act states that the Bank's principal role is "to promote the economic and financial welfare of Canada." In order to fulfill its obligation under the law the Bank operates in 5 distinct areas. One of those areas is to manage the Canadian dollar exchange rate with other global currencies. What instruments can the Bank of Canada use to affect the Canadian dollar exchange rate? Explain how they affect the exchange rate.

Chapter 10 Key

1. (p. 328) D
2. (p. 330) C
3. (p. 330) E
4. (p. 328, 329) E
5. (p. 334) A
6. (p. 334) C
7. (p. 334) C
8. (p. 334) A
9. (p. 336) B
10. (p. 336) A
11. (p. 334) D
12. (p. 336) E
13. (p. 336) E
14. (p. 337, 338) E
15. (p. 332) A
16. (p. 332) B
17. (p. 333) C
18. (p. 333) B
19. (p. 332) A
20. (p. 332) B
21. (p. 333) C
22. (p. 333) E
23. (p. 333, 334) C
24. (p. 334) C
25. (p. 334) E
26. (p. 333, 334) C
27. (p. 334) E
28. (p. 334) C
29. (p. 334) D
30. (p. 334) B
31. (p. 334) C
32. (p. 334) D
33. (p. 334) D
34. (p. 334) A
35. (p. 335) D
36. (p. 335) B

37. (p. 335) B
38. (p. 335) A
39. (p. 334) E
40. (p. 335) A
41. (p. 335) A
42. (p. 336) D
43. (p. 336) B
44. (p. 334) A
45. (p. 336) B
46. (p. 336) C
47. (p. 335, 336) A
48. (p. 336) E
49. (p. 336) D
50. (p. 336) B
51. (p. 336) C
52. (p. 336) C
53. (p. 337) A
54. (p. 337) A
55. (p. 337) C
56. (p. 338) A
57. (p. 338) E
58. (p. 338) B
59. (p. 338) A
60. (p. 338) A
61. (p. 333) C
62. (p. 339) A
63. (p. 339) D
64. (p. 339, 340) C
65. (p. 340) A
66. (p. 341) E
67. (p. 340) D
68. (p. 341) B
69. (p. 341) D
70. (p. 340) B
71. (p. 340) A
72. (p. 342) A
73. (p. 341, 342) B
74. (p. 341) E

75. (p. 342) E
76. (p. 342) B
77. (p. 343) B
78. (p. 343) C
79. (p. 343) B
80. (p. 344) D
81. (p. 344) A
82. (p. 344) B
83. (p. 345) A
84. (p. 345) D
85. (p. 344) E
86. (p. 345) A
87. (p. 345) A
88. (p. 345) D
89. (p. 345 onwards) B
90. (p. 351) B
91. (p. 353) B
92. (p. 328) TRUE
93. (p. 328) TRUE
94. (p. 330) FALSE
95. (p. 334) TRUE
96. (p. 334) FALSE
97. (p. 336-338) FALSE
98. (p. 332) TRUE
99. (p. 332) FALSE
100. (p. 332, 333) TRUE
101. (p. 334) TRUE
102. (p. 335) TRUE
103. (p. 335, 336) TRUE
104. (p. 336) TRUE
105. (p. 336) TRUE
106. (p. 337) TRUE
107. (p. 336) FALSE
108. (p. 338) TRUE
109. (p. 339, 340) TRUE
110. (p. 338) TRUE
111. (p. 338) TRUE
112. (p. 339) TRUE

113. (p. 340) FALSE

114. (p. 340) TRUE

115. (p. 341) TRUE

116. (p. 341) FALSE

117. (p. 341, 342) TRUE

118. (p. 341) FALSE

119. (p. 330) In a free floating system there is no governmental intervention in the market, while in a managed or dirty float system governments intervene to influence the value of their currency.

Today, the IMF and the World Bank still play a role in the international monetary system. The system of fixed exchange rates established at Bretton Woods worked well until the late 1960s, when it began to show signs of strain. The system finally collapsed in 1973, and since then we have had a managed float system.

The task of the IMF would be to maintain order in the international monetary system, and the World Bank was designed to promote general economic development. In regard to currency exchange rates, all countries were to fix the value of their currency in terms of gold but were not required to exchange their currencies for gold. Only the U.S. dollar remained convertible into gold-at a price of \$35 per ounce. Each other country decided what it wanted its exchange rate to be vis-à-vis the dollar and then calculated the gold par value of its currency based on that selected dollar exchange rate. All participating countries agreed to try to maintain the value of their currency within 1 percent of the par value.

d) A commitment not to use devaluation as a weapon of competitive trade policy.

c) A call for the establishment of a set of fixed currency exchange rates that would be policed by the IMF.

b) The establishment of the World Bank.

a) The establishment of the International Monetary Fund (IMF).

120. (p. 334-336) In 1944, at the height of World War II, representatives from 44 countries met at Bretton Woods, New Hampshire, to design a new international monetary system. The purpose of the conference was to build an economic order that would facilitate postwar economic growth and cooperation. Three primary initiatives resulted from the conference:

As the result of some disappointment in regard to loaning money to countries that do not practice sound economy policy, the World Bank has recently devised a new type of loan. In addition to providing funds to support specific projects, the bank will now also provide loans for the government of a nation to use as it sees fit in return for promises on macroeconomic policy.

Although the World Bank does not play a direct role in monetary policy, it contributes to the global money system by providing low interest loans to developing countries. These loans, which are used for such things as public-sector projects (i.e. power stations, roads, bridges, etc.), agricultural development, education, population control, and urban development, are intended to promote economic development and increase the standard of living in developing countries.

121. (p. 336) The World Bank was established by the 1944 Bretton Woods agreement. The official name for the World Bank is the International Bank for Reconstruction and Development (IBRD). The bank's initial mission was to help finance the building of Europe's war torn economy by providing low-interest loans. As it turned out, the role of the World Bank in Europe was overshadowed by the Marshall Plan, under which the U.S. lent money directly to European nations to help them rebuild in the aftermath of World War II. As a result, the bank turned its attention to lending money for development in Third World nations.

The majority of international businesses would probably prefer stability in exchange rates. Exchange rate fluctuations introduce uncertainty into the international business process, which is uncertain enough to begin with.

122. (p. 338-340) The volatility of the present system of floating exchange rates is a problem for international businesses. Exchange rates are difficult to predict, and introduce a major source of "uncertainty" in international trade that is unnerving for many businesses.

There is no right or wrong answer to this question—we simply don't know which system is better. We do know that a fixed rate system modeled along the lines of the Bretton Woods system will not work. Conversely, advocates of a fixed rate system argue that speculation is a major disadvantage of floating rates. Perhaps a modified fixed rate system will produce the type of economic stability that will contribute to greater growth in international trade and investments.

123. (p. 340-342) Under a fixed rate system the value of a currency is fixed (usually in terms of U.S. dollars) and is only allowed to change under a specific set of circumstances. The value of a fixed rate system is that it introduces monetary discipline (on a country level), discourages currency speculation, reduces uncertainty (in regard to future currency movements), and, according to the proponents of fixed rates, has little or no effect on trade balance adjustments. In contrast, under a floating rate system, currencies are allowed to float freely (in practice, the majority of floating rate systems are either managed in some way by government intervention or are pegged to another currency). The benefits of a floating rate system is that it gives countries monetary policy autonomy and, according to the proponents, provides a way for countries to correct trade deficits (i.e. an exchange rate depreciation should correct a trade balance by making a country's exports cheaper and its imports more expensive).

124. (p. 343-344) Under a pegged exchange rate regime a country will peg the value of its currency to that of a major currency so that, for example, as the United States dollar rises in value, its own currency rises, too. Pegged exchange rates are popular among many of the world's smaller nations. As with a full fixed exchange rate regime, the great virtue claimed for a pegged exchange rate regime is that it imposes monetary discipline on a country and leads to low inflation.

125. (p. 359-360) A. Most auto assembly plants are primarily producing for the U.S. market. This means that a rise in the Canadian dollar will increase costs and make them less profitable. This will diminish their low cost advantage vis-à-vis the U.S. and may lead to plant closures, particularly among GM, Ford and Chrysler. This can also have a spin off effect among parts manufacturers. B. an importer will find his costs decreasing, because the Chinese yuan is tied to the American dollar. This will lead to a choice for the importer of either reducing his prices to reflect the savings from the increased value of the dollar or letting them stay the same so they can enjoy higher profits. C. A software developer in India will find his costs may or may not decrease, because the Indian rupee floats against all other currencies. This means that the rupee may increase or decrease against the Canadian dollar. It is most likely that the exchange rate will remain the same between the Canadian dollar and the rupee, because both countries do a lot of trading with the U.S. D. The tourist may not enjoy any savings simply because the Euro has been also appreciating against the U.S. dollar.

126. (p. 357-358) This refers to the theory that if policy makers know that the IMF will always provide their country with a safety net to protect or mitigate their bad decisions they are less likely to pursue prudent economic policies. In other words they are more likely to take a chance than they would if the IMF was not ready to bail them out.

127. (p. 353-357) Korean companies had built up huge debt loads in U.S. denominated loans to pay for investments in new industrial capacity. This was done under the urgings of the Korean government who saw increased exports as the road to economic growth and wealth. The companies they had too much capacity and could not service their debts. When the Korean Won started to decline in reaction to the other crises in SE Asia, the companies saw their debt obligations balloon. Several large companies were forced to file for bankruptcy. This triggered a decline in the Korean stock market and the Won that was difficult to stop.

128. (p. 340, 341) There can be two responses—the nationalist approach that argues against closer integration with the U.S. because it may lead to an eventual union of the two countries, or the economic argument which argues that the high twin deficits of trade and national government will lead to some sort of economic correction. This argument can also include the loss of monetary policy autonomy.

129. (p. 330, 331 and the rest of the chapter) The Bank of Canada has the following instruments, which can have an impact on the value of the dollar against other currencies. The first is through the increase or decrease in the money supply. If money supply increases, this will most likely drive the value of the Canadian dollar down. If money supply decreases this will most likely drive the value up. Another tool is the buying or selling of Canadian dollars using the Bank's foreign currency reserves. Buying will help support the value or increase it, while selling will decrease the value. The final instrument is the over-night bank rate. An increase in the interest rate will make the currency more attractive and a decrease will make the currency less attractive.

Chapter 10 Summary

<u>Category</u>	<u># of Questions</u>
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Difficulty: Hard	44
Difficulty: Medium	70
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