

# **Telfer School of Management**

**International Business**

**ADM 3318, All Sections**

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## **WEEK 8**

## **The Global Monetary System – Chapter 10**

Turkey's 18th IMF Program (p. 322-24)

- The Role of the IMF

Meaning of the « international monetary system »

- Floating exchange rate
- Regged exchange rate
- Dirty-float system
- Fixed exchange rate

The Gold Standard (p. 327-328)

The Bretton Woods System (p. 329)

The Role of the IMF (p. 329)

The Role of the World Bank (p. 330)

The Collapse of the Fixed Exchange Rate System

The Floating Exchange Rate Regime

## Exchange Rates since 1973

- periodic, ad-hoc management of crisis
- Little co-operation lately

## Fixed Versus Floating Exchange Rates

### The Case for Floating Exchange Rates

- Monetary policy autonomy
- Trade balance adjustments

### The case for Fixed Exchange Rates

- Monetary discipline
- Speculation
- Uncertainty
- Trade balance adjustments

### Exchange Rate Regime in Practice

- Regged exchange rates
- Currency boards

## **Crisis Management by the IMF**

- Currency crisis
- Banking crisis
- Foreign debt crisis

## **The Really Big Questions:**

1. How to manage the Global Economy?
2. Can crisis be avoided?
3. What are the quicker and co-ordinated response to crisis?

- Serious economic and financial crisis quite common over the past 2 decades
  
- IMF management controversial criticisms of « Washington consensus »

Recent (2008) crisis most serious and widespread i.e. global, since the Great Depression

## The Most Recent Crisis Enormously Costly

- Unemployment (disguised, discouraged)
- Loss of wealth
- Precarious fiscal picture for most countries (states, local government)
- Setback to globalization, trade friction

USA, China, Japan, UK, etc collectively the most widespread and biggest fiscal effort to prevent full-blown depression, but need for new ways of co-operation evident G-20

## The EU and Euro Crisis

Reform of IMF

Country autonomy, sovereignty

World's economies more interdependent

New regulations; banks' capitalization, transparency, control over leveraging

Exchange rate instability

Role of monetary policy