***International Monetary and Financial Economics* (Daniels / Van Hoose)**
Chapter 3 Exchange-Rate Systems, Past to Present

1) Which of the following is the best definition of monetary order?
A) a set of laws that establishes the framework for the economy to settle and conduct transactions
B) a set of rules for how money will be printed and counted within an economy
C) the policies that govern what will be considered money in an economy
D) the policies that establish the exchange rate system in an economy
Answer: A

2) The difference between commodity money and fiat money is that
A) commodity money is backed by gold, and fiat money is not.
B) commodity money is backed by a tangible asset, and fiat money has no backing.
C) commodity money has nothing behind it, while fiat money is backed by a government's gold reserves.
D) commodity money is made from commodities, and fiat money is made from Italian paper.
Answer: B

3) The official price of golds in terms of the national currency is known as
A) the convertibility factor.
B) the exchange rate.
C) the mint parity rate.
D) the mint stock rate.
Answer: C

4) Which of the following time frames covers when the United States employed the Gold Standard?
A) 1910-1930
B) 1880-1907
C) 1945-1973
D) 1867-1933
Answer: D

5) One advantage to using gold as the basis for a currency is that
A) the supply of gold is rather constant over time.
B) gold is considered valuable by everyone.
C) gold is an important raw material for production.
D) gold is easily minted into coins.
Answer: A

6) One disadvantage of gold as the basis for a currency is
A) gold is difficult to transport in large quantities.
B) a new discovery of gold could quickly change the value of the currency.
C) a gold standard can be costly to maintain if the currency comes under speculation.
D) all of the above.
Answer: D

7) After WWI, what was the difference between the British and the French in terms of currency values?
A) The French devalued the franc from prewar levels; the British did not.
B) The British devalued the pound from prewar levels; the French did not.
C) The French depreciated the franc from prewar levels; the British did not.
D) The British depreciated the pound from prewar levels; the French did not.
Answer: A

8) The result of British currency policy after World War I
A) left the country with painfully high interest rates and unemployment for years.
B) left the country well positioned for the roaring twenties that followed.
C) gave the country a tremendous advantage when the Smoot-Hawley Act was passed in the U.S.
D) left the country at a tremendous disadvantage when the Smoot-Hawley Act was passed in the U.S.
Answer: A

9) Under the Bretton Woods system, participating countries
A) pegged their currencies to the U.S. dollar.
B) maintained a fixed exchange rate with gold.
C) allowed their currencies to float freely.
D) pegged their values to the British pound.
Answer: A

10) Which of the following organizations was NOT the result of the Bretton Woods Conference in 1944?
A) the League of Nations
B) the General Agreement on Tariffs and Trade
C) the International Monetary Fund
D) the International Bank for Reconstruction and Development
Answer: A

11) If the U.S. dollar is pegged to gold, then
A) the Federal Reserve must adjust the supply of U.S. dollars when the price of gold changes.
B) the government must buy and sell gold reserves when the price of the dollar changes.
C) the U.S. dollar will not change in value since the price of gold is constant.
D) the U.S. dollar would become more valuable than the Euro.
Answer: A

12) Under the Bretton Woods system, if West Germany needed to change its parity rate with the U.S. dollar so that a person might offer fewer Deutsch marks to buy on e dollar, then they would be
A) revaluing their currency.
B) devaluing their currency.
C) appreciating their currency.
D) depreciating their currency.
Answer: A

13) The U.S. dollar is one of the leading reserve currency in the world. This means that
A) dollars are often used to settle international debts and to state other currency exchange values.
B) dollars are the most common currency for savings internationally.
C) dollars are held to cover shortfalls in government budgets.
D) dollars are accepted in just about every country in the world.
Answer: A

14) The Bretton Woods system ended when
A) President Nixon announced that the dollar was no longer convertible to gold.
B) speculators forced the UK treasury to devalue the pound.
C) speculators put pressure on the dollar because it was believed to be overvalued.
D) the French could not afford their loan repayment to the IMF.
Answer: A

15) What is the difference between the Bretton Woods system and the system established at the Smithsonian meeting?
A) The Smithsonian Agreement had wider parity bands with new par values.
B) The Smithsonian Agreement had wider parity bands with the same par values.
C) The Smithsonian Agreement had narrower parity bands with new par values.
D) The Smithsonian Agreement had narrower parity bands with the same par values.
Answer: A

16) If the U.S. dollar and British pound have a flexible exchange rate, and the U.S. dollar changes so that one needs more dollars to buy one pound, the currency has
A) depreciated.
B) appreciated.
C) devalued.
D) revalued.
Answer: A

17) If a currency is allowed to move freely until it violates economic fundamentals, that currency is said to have
A) a managed float.
B) a free floating system.
C) a currency board.
D) a stable basket.
Answer: A

18) If a country adopts another country's currency, it is called
A) dollarization.
B) a crawling peg.
C) a dirty float.
D) monetary order.
Answer: A

19) When a country establishes one rate as the exchange rate, but allows their currency to fluctuate within a certain percentage of that value, it is said to have
A) parity bands.
B) dollarized.
C) a currency basket.
D) a pegged currency.
Answer: A

20) Nicaragua in the early 2000s set its exchange rate with the U.S. dollar to decrease monthly by 1%. This is an example of
A) a crawling peg.
B) bad currency management.
C) a parity band.
D) a currency board.
Answer: A

21) One reason a country might choose a fixed exchange rate is
A) to reduce inflation and promote a stable economic environment.
B) to reduce the impact of economic shocks.
C) to rid themselves of the pressure of monetary management.
D) that it is easier for all citizens to understand.
Answer: A

22) One reason a country might choose a flexible exchange rate
A) to reduce inflation and promote a stable economic environment.
B) to reduce the impact of economic shocks.
C) to rid themselves of the pressure of monetary management.
D) that it is easier for all citizens to understand.
Answer: B

23) A country wishing to establish a currency basket peg usually
A) chooses a small number of trading partner's currencies for that basket.
B) chooses all of its trading partner's to be members of the basket.
C) chooses six trading partners for inclusion.
D) chooses only the most stable reserve currencies for inclusion.
Answer: A

24) In 1985, the Plaza Agreement was reached by the G5 nations with the intent of
A) collectively driving down the value of the dollar.
B) effectively ending the Bretton Woods system.
C) restating the dollar's parity rate with gold.
D) slowing the collapse of the dollar's value by their interventions.
Answer: A

25) The Bundesbank is the
A) central bank of Germany.
B) treasury for the IMF.
C) central bank of Holland.
D) currency board for Austria.
Answer: A

26) How does a managed float differ from a free float? How would you reflect this on the graph for the currency's market?
Answer: Answers will vary.

27) Briefly describe each of the agreements in terms of the evolution to the current system of exchange rates: the Bretton Woods Agreement, the Smithsonian Agreement, the Jamaica Accords, the Plaza Agreement, and the Louvre Accord.
Answer: Answers will vary.

28) Explain dollarization and its advantage and disadvantages using El Salvador and the U.S. dollar.
Answer: Answers will vary.

29) What is the Ebu and explain who is investing in them and why.
Answer: Answers will vary.

30) Which countries benefit most from fixed exchange rates? Which countries from flexible exchange rates? Explain why.
Answer: Answers will vary.