

***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 one 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.