Questions for Ch 15-17

Know whether exports and imports of goods, services, and capital are credit or debit items in the balance of payments and whether they create demand or supply for the home currency in the foreign exchange market.

Know the five major balances and the macro meanings of the current account and overall balances.

1. With balance of payments equilibrium if a country has a bet private capital inflow of 10 billion, what must be its current account balance?

2. Which payments balance is most relevant for Keynesian analysis and which for monetarist analysis?

3. If the total balance of payments always balances how can a country have a balance of payments problem?

4. Explain the slopes of the demand and supply curves in the foreign exchange market.

5. Under flexible exchange rates how would a capital outflow affect the foreign value of the home currency?

6. If there were fixed rates instead, would the capital outflow cause an overall balance of payments surplus or deficit?

7. To keep the foreign exchange value of its currency constant what would the government have to do?

8. According to the speculative theory the forward rate should equal _____ while with covered parity theory it would equal _____.

9. If a country's interest rate is above those abroad than we would expect its currency to sell forward at _____.

Questions on Ch 24 EMU

1. Are countries better candidates to join a currency union if their inflation rates are similar or different?

2. Does labor market flexibility increase or reduce the case for fixed exchange rates?

3. Is a large country likely to gain more or less from adopting a fixed exchange rate?

4. Was the push for EMU due primary to economic or political considerations?

Questions for Ch 26 and Financial Crisis Discussion

1. Is there a best type of exchange rate regime to avoid currency crises?

2. If a county's pegged exchange rate is initially in equilibrium and there is a domestic financial sector crisis, is this likely to make the initial peg over or undervalued?

3. What is moral hazard and how, if any, did it contribute to the Asian Crisis?

4. Does it make any difference to a country's vulnerability to crisis whether its international capital inflows are mostly direct investment or short term?

5. In terms of the theory of distortions and economic efficiency outlined in Ch 9, what, if any, is the cause for a tax on short term foreign borrowing by emerging markets.

Some questions and concepts to review for Econ 140.

1 Unholy Trinity
2 One way speculative gamble
3 gold standard adjustment (specie flow mechanism) $\Delta B.P\downarrow \Rightarrow \Delta R\downarrow \Rightarrow \Delta M\downarrow \Rightarrow \Delta P\downarrow \Rightarrow \Delta(X-m)\uparrow$
4) Keynesian adjustment " " initial sterilization since P not flexible so no ΔM

If deficit continues it becomes fundamental disequilibrium - Under Bretton Woods should adjust exchange rate

otherwise need tight macro policies

$\Delta Y\downarrow \Rightarrow M\downarrow$ get adjustment but costly.

5) Beggar thy neighbor policies during Great Depression
6) How would a domestic boom influence the currencies value with a) low capital mobility

b) high capital mobility

7) How, if at all, could a budget deficit cause a currency to strengthen?
8) How would the relationship between $(X-m)$ and Y under fixed rates depend on whether the initial event was a ΔX or ΔY
9) Concept of Optimum Currency Areas suggests flex for big countries & fixed for small
10) Problems of compromise adjustable peg system
11) What two factors could keep a devaluation from improving the trade balance?
12) Who are the main gainers and losers from the value of a currency being set high or low?