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Azerbaijan State University of Economics – UNEC

International School of Economics

**International Currency-Credit Relations and Monetary Systems of the Foreign Countries**

**Exam Questions**

1. Explain the fundamentals of Gold Standard and why did the Gold Standard make sense?
2. Explain the Bretton Wood System. What was the aim of this system and what accepted under the new agreement?
3. Define the functions of the IMF and World Bank as the multinational institutions
4. Define the differences between floating and fixed exchange rate systems
5. Give the explanation about the features of currency, banking and foreign debt crisis
6. Explain the Elasticities Approach
7. What is the J-curve effect?
8. Define an absorption instrument and an expenditure-switching instrument. Give an example of each and explain how it would be used to have the desired impact on the economy
9. Explain what is a"vehicle currency”. Why is the U.S. dollar considered a vehicle currency?
10. Explain the purpose of the following figure 14-2 from the text in the context of the interest rates on the dollar and the Japanese Yen between 1980 and 2010.



1. Explain risk and liquidity of assets
2. Explain why the interest parity condition must hold if the foreign exchange market is in equilibrium.
3. Explain the interest parity condition?
4. Discuss the effects of a rise in the interest rate paid by euro deposits on the exchange rate.



1. Calculate the Expected Dollar Depreciation Rate against the euro and the expected dollar return on euro deposits if the expected exchange rate is $1.10 per euro



1. What is the expected dollar rate of return on euro deposits if today's exchange rate is $1.167 per euro, next year's expected exchange rate is $1.10 per euro, the dollar interest rate is 10%, and the euro interest rate is 5%?
2. Please define and give an example of sterilized foreign exchange intervention
3. A balance sheet for the central bank of Pecunia is shown below:

Central Bank Balance Sheet

Assets Liabilities

Foreign assets $1,000 Deposits held by private banks $500

Domestic assets $1,500 Currency in circulation $2,000

Please write the new balance sheet if the bank makes a sterilized transaction by selling $100 of foreign assets for domestic currency and then purchasing $100 of domestic assets by writing a check on itself

1. If the central bank does not purchase foreign assets when output increases but instead holds the money stock constant, can it still keep the exchange rate fixed at ? Please explain with the aid of a figure.



1. Please discuss the difference between the terms devaluation and depreciation
2. Use a figure to explain the potential effectiveness of fiscal policy to spur on the economy under a fixed exchange rate



1. Describe the effect of the 2008-2009 global financial crisis on the Swiss franc and the central bank's efforts to respond to the resulting problems
2. Under the gold standard, if the dollar price of gold is pegged at $35 per ounce and the euro price of gold is pegged at 12 euro per ounce, what is the dollar/euro exchange rate?
3. What are the main functions of money?
4. What are the main factors that determine aggregate money demand?
5. Explain the following figure



1. Explain how the money markets of two countries are linked through the foreign exchange market
2. Analyze the effects of an increase in the European money supply on the dollar/euro exchange rate
3. Why is it useful to make a distinction between debt and equity instruments?
4. Why is portfolio diversification so important in international trade?
5. Describe the role of offshore banking and of offshore currency (eurocurrencies) trading
6. What is securitization?
7. Who is the Basel Committee? Discuss both their involvement in the Concordat as well the role of the Concordat in international banking
8. Who are the main actors in the international capital market? Please explain the characteristics
9. Explain what the four main categories of world economies are and give examples?
10. What factors lie behind capital inflows to the developing world?
11. Explain why a exchange rate-based stabilization plan may result in a real appreciation?
12. Contrast the crisis in Poland and Russia. Explain why the Polish economy has done better?
13. Does it appear that currency boards make low-inflation policies credible?
14. What are the alternative forms of financial inflow? Please give the characteristics
15. Why does the Federal Reserve Bank of New York play a special role within the Federal Reserve System?
16. Explain two concepts of central bank independence. Is the Fed politically independent? Why do economists think central bank independence is important?
17. What is the theory of bureaucratic behavior and how can it be used to explain the behavior of the Federal Reserve?
18. Explain the similarities and differences between the European System of Central Banks and the Federal Reserve System
19. In what ways can the regional Federal Reserve banks influence the conduct of monetary policy?
20. What are the functions of the Federal Reserve Banks? Please define all of them
21. Explain the Fed's three tools of monetary policy and how each is used to change the money supply. Does each tool affect the monetary base or the money multiplier?
22. Explain the figure according to the “Reserve Requirements”



1. Explain the Conventional Monetary Policy Tools of Federal Reserve Bank
2. Explain the Monetary Policy Tools of the European Central Bank
3. Define the open market operations and what is the role of them?
4. Open market operations have several advantages over the other tools of monetary policy. Please define them
5. Explain the figure according to the “Corridor System for Setting Interest Rates”



1. Explain the theory of optimum currency areas
2. Draw the graph of the GG and LL schedules and explain the logic behind the slopes of each of the schedules
3. What is one way to offset the economic stability loss due to fixed exchange rates?
4. Explain what the GG-LL model tells us about the benefits of extensive trade between EU member states and comment on the significance of similarity of economic structure in this framework.
5. During the 2009 euro crisis, a number of countries had private banks that had become too "big to save." Explain
6. Explain the Keynesian theory of money demand. What motives did Keynes think determined money demand?
7. Describe what the liquidity trap is. Explain how it can be problematic for monetary policymakers.
8. What factors determine the demand for money in the Baumol-Tobin analysis of transactions demand for money? How does a change in each factor affect the quantity of money demanded?
9. What is the velocity of money?
10. If the money supply is $500 and nominal income is $3,000, what is the velocity money is?
11. If the money supply is $2 trillion and velocity is 5, then nominal GDP is?
12. Explain the Law of One Price. Give an example
13. Explain Purchasing Power Parity
14. What is the Fisher Effect? Provide an example
15. Suppose Russia's inflation rate is 200% over one year but the inflation rate in Switzerland is only 2%. According to relative PPP, what should happen over the year to the Swiss franc's exchange rate against the Russian ruble?
16. Explain how expansionary and contractionary monetary policies affect aggregate demand through the exchange rate channel
17. Define the concept of the real exchange rate and explain how it differs from the nominal exchange rate.
18. Discuss three channels by which monetary policy affects stock prices and aggregate spending
19. What are the pros and cons of monetary union? Describe each of them and provide one example.
20. What are the advantages or disadvantages of a vehicle currency?
21. When Could Using a Single Currency Pay Off?
22. What is an exchange-rate target zone?