Lecture: 8 Floating Rate, Currency Boards & Currency Basket Systems

Model Questions

1. **Identify these pairs by putting the letter of the synonym in the blank provided (Term Means essentially the same as)**

    a. **appreciation --------**
    b. **supply of foreign currency --------**
    c. **law of one price ---------**
    d. **dirty float ---------**
    e. **floating exchange rate --------**
    f. **devaluation ----------**
    g. **demand for domestic currency --------**
    h. **pegged exchange rate ---------**
    i. **revaluation ---------**
    j. **fixed exchange rate ----------**
    k. **managed float ----------**
    l. **depreciation ----------**
    m. **purchasing power parity --------**
    n. **flexible exchange rate -----------**

2. **Under a gold standard, countries should**

    a) **keep the supply of their domestic money constant.**
    b) **keep the supply of their domestic money fixed in proportion to their gold holdings.**
    c) **keep the supply of foreign exchange less than their domestic money supply.**
    d) **restrict the demand for foreign goods.**
    e) **outlaw speculation.**

3. **Under a fixed exchange standard, if the domestic demand for foreign exchange increases**

    a) **the central monetary authority must meet the demand out of its reserves.**
    b) **the central monetary authority must increase the supply of domestic money.**
    c) **the fixed exchange standard will breakdown.**
    d) **inflation will increase.**
    e) **the domestic currency must be devalued.**

4. **The Bretton Woods exchange rate system was an example of a**

    a) **target zone.**
    b) **managed float.**
    c) **pure gold standard.**
    d) **modified gold standard.**
    e) **floating exchange rate system**

5. **Which of the following is NOT one of the determinants of the gains of adopting a single currency?**

    a) **A well-synchronized business cycle involving all member countries**
    b) **The possibility of factors of production to freely move across borders**
    c) **The willingness and ability of member countries to design policies to address regional imbalances that may develop**
    d) **Widening the common market by allowing other countries to join**
    e) **None of the above.**

6. **The biggest disadvantage of a fixed exchange rate is the**

    a) **increased probability of high inflation.**
    b) **tradeoff between supporting the exchange rate and adjusting the trade balance.**
    c) **tradeoff between supporting the exchange rate and maintaining full employment.**
    d) **increased probability of a trade deficit.**
    e) **tradeoff between supporting the exchange rate and maintaining a balanced budget.**

7. **Write, in brief, *pros & cons* of fixed and completely flexible exchange rate regimes.**

8. **How the Managed Floating exchange rate regime overcome the difficulties of completely flexible exchange rate regime.**

9. **Discuss the advantages and disadvantages of Currency Boards System?**

10. **How can a Currency Basket Exchange rate regime be created? What are the advantages of currency basket regime over the flexible exchange rate regime?**

11. **Briefly outlines the historical developments of exchange rate regime in case of India.**