

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345
International Finance

Prof. Kasa
Spring 2017

PROBLEM SET 2
(Due March 20)

The following questions are short answer. 25 points each.

1. Read the article from *The Economist* entitled “It’s Been a Privilege”, which is posted on the class website. According to the article, how does the current importance of the US dollar in the international financial system compare to its importance during the Bretton Woods System immediately following World War II? Explain. Is the current role of the US dollar good or bad for the US economy? Why? According to the article, how might the Trump administration threaten the future position of the US dollar in the international financial system?
2. For the past year, China has been selling foreign reserves in an effort to support the value of the RMB. Using the DD-AA model, compare and contrast the effects of this intervention when the People’s Bank of China sterilizes its sale of foreign reserves and when it does not. Is sterilization a good strategy? What are its pros and cons?