

SIMON FRASER UNIVERSITY
Department of Economics

Econ 446
Seminar in International Finance

Prof. Kasa
Spring 2002

FINAL EXAM

Answer the following questions True, False, or Uncertain. Briefly explain your answers. No credit without explanation. (10 points each).

1. The Bretton Woods system collapsed because the United States engaged in overly expansionary monetary policy.
2. According to Mundell's Optimum Currency Area criteria, a country should not join a Monetary Union if its business cycles are highly correlated with those of the countries that belong to the union.
3. A Monetary Union cannot succeed without political integration.
4. The choice between fixed and flexible exchange rates would be irrelevant if wages and goods prices were themselves perfectly flexible.

Answer 3 of the following 4 questions. Clarity will be rewarded. (20 points each).

5. In his article, "The Case for Flexible Exchange Rates", Friedman discusses four ways an economy can adjust to an external shock. Briefly summarize each possibility. Why does Friedman think flexible exchange rates is the least costly way to adjust?
6. In their article, "The Endogeneity of the Optimum Currency Area Criteria", Frankel and Rose argue that traditional analyses are too pessimistic about the likely success of a proposed Monetary Union. Explain why. On what evidence do they base their conclusions? Can you think of any caveats to their argument?
7. In their article, "From Fixing to Monetary Union: Options for North American Currency Integration", Harris and Courchene argue that Canada should fix the value of the Canadian dollar to the U.S. dollar. Explain why. What evidence do they use to support their argument? Can you think of any caveats or counter-arguments?
8. Briefly compare and contrast a Currency Board and Dollarization as alternative methods of fixing the exchange rate. What are their costs and benefits? Be sure to discuss their implications for seignorage, the 'lender-of-last-resort', and credibility.