SIMON FRASER UNIVERSITY
Department of Economics

Econ 345 | Prof. Kasa
International Finance | Fall 2008

PROBLEM SET 3
(Due November 26)

The following questions are short answer. 30 points each.

1. Using the DD-AA model, compare and contrast how fixed and flexible exchange rate systems respond to real shocks (e.g., an exogenous decline in net exports) vs. nominal shocks (e.g., an exogenous increase in money demand). On the basis of these results, when should a country adopt flexible exchange rates? When would fixed exchange rates provide more stability?

2. What was the Bretton Woods System? How did it differ from the Gold Standard? Why did it eventually collapse? What lessons does it provide for recent proposals to reform the international financial system?

3. Briefly describe the transmission of monetary and fiscal policies across countries. How does the transmission depend on the exchange rate regime (i.e., fixed vs. flexible exchange rates)?