Prof. Michael Kevane
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Study Guide International Finance (so far)

There are two fundamental options considered in discussions of what kind of international payments system best serves the objective of promoting international trade. The first is to have a system of fixed exchange rates, the other to have a system of floating exchange rates. At the end of the day, you should be able to characterize each of these systems; how they work from the perspective of an economy and its central bank. You should also be able to explain clearly and concisely the problems that each system faces, and consequently the costs and benefits of each system.

So far we have concentrated on floating exchange rate system.

The final will consist of a series of questions that guide you through these discussions.

You can expect the following:

1. Several short questions asking you about the interest parity condition.

2. A longer question asking you to explain the 'overshooting' model in the context of a change in monetary policy or change in money demand.

3. Short question about purchasing power parity.

4. Short question about the experience of the dollar over the time period of the course.

5. Short question about how to interpret current account deficits

Now on to fixed exchange rates:

5. Short question about how to participate in a 'speculative attack'; i.e. if you were George Soros, how do you make money when you expect the a fixed exchange rate to be devalued?

6. The effects of a fixed exchange rate on domestic monetary policy

7. The general causes and consequences of a balance of payments crisis

8. The essence of the Bretton Woods and Asian financial crises

9. Short question on sterilization

10. General question on comparing fixed vs. floating