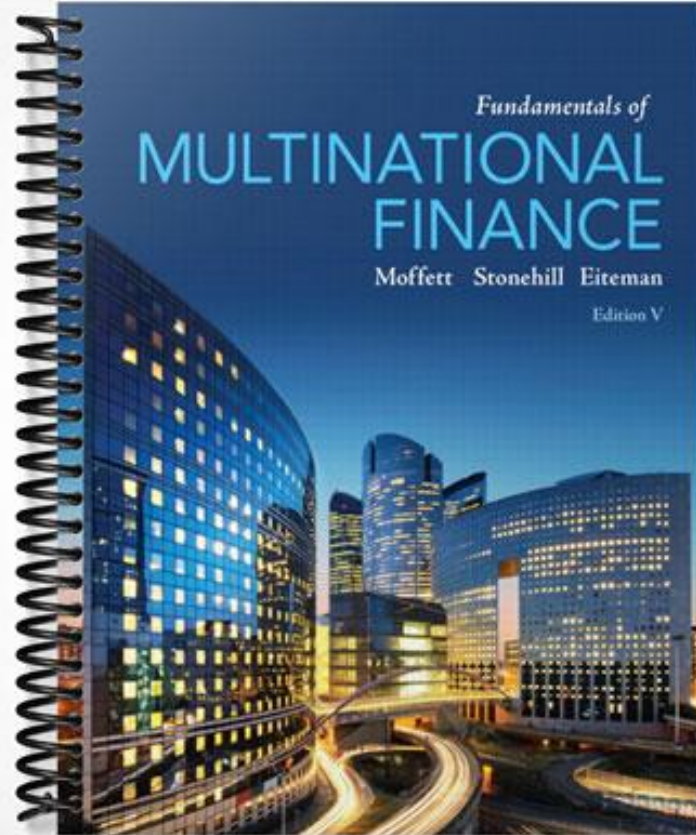


**TEST BANK**



***Fundamentals of Multinational Finance, 5e (Moffett et al.)***  
**Chapter 2 The International Monetary System**

Multiple Choice and True/False Questions

**2.1 History of the International Monetary System**

1) Under the gold standard of currency exchange that existed from 1879 to 1914, an ounce of gold cost \$20.67 in U.S. dollars and £4.2474 in British pounds. Therefore, the exchange rate of pounds per dollar under this fixed exchange regime was

- A) £4.8665/\$.
- B) £0.2055/\$.
- C) always changing because the price of gold was always changing.
- D) unknown because there is not enough information to answer this question.

Answer: B

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Analytical

2) World War I caused the suspension of the gold standard for fixed international exchange rates because the war

- A) cost too much money.
- B) interrupted the free movement of gold.
- C) lasted too long.
- D) used gold as the main ingredient in armament plating.

Answer: B

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Conceptual

3) The post WWII international monetary agreement that was developed in 1944 is known as the

- A) United Nations.
- B) League of Nations.
- C) Yalta Agreement.
- D) Bretton Woods Agreement.

Answer: D

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

4) Another name for the International Bank for Reconstruction and Development is

- A) the Recon Bank.
- B) the European Monetary System.
- C) the Marshall Plan.
- D) the World Bank.

Answer: D

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

5) The International Monetary Fund (IMF)

- A) in recent years has provided large loans to Russia, South Korea, and Brazil.
- B) was created as a result of the Bretton Woods Agreement.
- C) aids countries with balance of payment and exchange rate problems.
- D) is all of the above.

Answer: D

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

6) A special Drawing Right is a unit of account established by

- A) the Federal Reserve Bank.
- B) the World Bank.
- C) the International Monetary Fund.
- D) the European Central Bank.

Answer: C

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

7) Special Drawing Right or SDR is

- A) global reserve asset created by IMF to replace the national currencies.
- B) international reserve asset created by IMF to supplement existing foreign exchange reserves.
- C) weighted average of four major currencies plus the currencies of the BRICs countries.
- D) none of the above

Answer: B

Diff: 2

Topic: 2.1 History of the International Monetary System

Skill: Recognition

8) Under the terms of Bretton Woods countries tried to maintain the value of their currencies to within 1% of a hybrid security made up of the U.S. dollar, British pound, and Japanese yen.

Answer: FALSE

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

9) Members of the International Monetary Fund may settle transactions among themselves by transferring Special Drawing Rights (SDRs).

Answer: TRUE

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

10) Today, the United States has been ejected from the International Monetary Fund for refusal to pay annual dues.

Answer: FALSE

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Analytical

11) Which of the following led to the eventual demise of the fixed currency exchange rate regime worked out at Bretton Woods?

A) widely divergent national monetary and fiscal policies among member nations

B) differential rates of inflation across member nations

C) several unexpected economic shocks to member nations

D) all of the above

Answer: D

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Conceptual

12) If exchange rates were fixed, investors and traders would be relatively certain about the current and near future exchange value of each currency.

Answer: TRUE

Diff: 2

Topic: 2.1 History of the International Monetary System

Skill: Conceptual

13) An international gold standard for currency exchanges has the implicit effect of

A) making currencies float relative to the price of gold.

B) limiting the growth of a country's money supply subject to the ability of the official authorities to obtain more gold.

C) melting the polar ice caps.

D) encouraging the United Kingdom to abandon the Pound Sterling in favor of the Euro.

Answer: B

Diff: 2

Topic: 2.1 History of the International Monetary System

Skill: Conceptual

14) In 1934 the United States \_\_\_\_\_ the USD from \_\_\_\_\_.

- A) devalued; \$20.67/oz to \$35.00/oz of gold
- B) devalued; \$35.00/oz to \$20.67/oz of gold
- C) revalued; \$20.67/oz to \$35.00/oz of gold
- D) revalued; \$35.00/oz to \$20.67/oz of gold

Answer: A

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

15) Which of the following is NOT a characteristic of the Bretton Woods Agreement?

- A) Member nations would enjoy a fixed exchange rate with an "adjustable peg."
- B) The International Monetary Fund would be formed.
- C) The World Bank would be formed.
- D) All of the above are characteristics of the Bretton Woods Agreement.

Answer: D

Diff: 1

Topic: 2.1 History of the International Monetary System

Skill: Recognition

16) Jordan is planning to take a vacation trip to Mexico following her graduation from college. Her parents are giving her a \$500 graduation present. If the current exchange rate is Ps11.637/\$ how many pesos will Jordan have to enjoy her vacation?

- A) \$500
- B) Ps4,296.64
- C) Ps5,818.50
- D) \$429.66

Answer: C

Diff: 2

Topic: 2.1 History of the International Monetary System

Skill: Analytical

17) American college students on the USA-Canadian border have discovered they can buy Canadian beer for less money than what they pay in the states. Recently Jerry paid C\$5.50 for a six-pack of beer while he was in Canada while his roommate, Ben, paid \$5.75 for a six-pack of the same beer in the states. If the current exchange rate is \$1.0335/C\$, who paid less and why?

- A) Jerry paid less because his purchase cost 5.68 in USD.
- B) Jerry paid less because his purchase cost 5.32 in USD.
- C) Ben paid less because his purchase cost C\$5.26.
- D) Ben and Jerry actually paid the same amount for their beer. Markets are efficient!

Answer: A

Diff: 2

Topic: 2.1 History of the International Monetary System

Skill: Analytical

## 2.2 IMF Classification of Currency Regimes

1) The IMF's exchange rate regime classification identifies \_\_\_\_\_ as the most rigidly fixed, and \_\_\_\_\_ as the least fixed.

- A) exchange arrangements with no separate legal tender; independent floating
- B) crawling pegs; managed float
- C) currency board arrangements; independent floating
- D) pegged exchange rates within horizontal bands; exchange rates within crawling pegs

Answer: A

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Recognition

2) Which of the following correctly identifies exchange rate regimes from less fixed to more fixed?

- A) independent floating, currency board arrangement, crawling pegs
- B) independent floating, currency board arrangement, managed float
- C) independent floating, crawling pegs, exchange arrangements with no separate legal tender
- D) exchange arrangements with no separate legal tender, currency board arrangement, crawling pegs

Answer: C

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Recognition

3) A small economy country whose GDP is heavily dependent on trade with the United States could use a (an) \_\_\_\_\_ exchange rate regime to minimize the risk to their economy that could arise due to unfavorable changes in the exchange rate.

- A) pegged exchange rate with the United States
- B) pegged exchange rate with the Euro
- C) independent floating
- D) managed float

Answer: A

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Conceptual

4) Under a fixed exchange rate regime, the government of the country is officially responsible for

- A) intervention in the foreign exchange markets using gold and reserves.
- B) setting the fixed/parity exchange rate.
- C) maintaining the fixed/parity exchange rate.
- D) all of the above.

Answer: D

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Recognition

5) The United States currently uses a \_\_\_\_\_ exchange rate regime.

- A) crawling peg
- B) pegged
- C) floating
- D) fixed

Answer: C

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Recognition

6) Based on the premise that, other things equal, countries would prefer a fixed exchange rate: Variable rates provide stability in international prices for the conduct of trade.

Answer: FALSE

Diff: 2

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Conceptual

7) Based on the premise that, other things equal, countries would prefer a fixed exchange rate, which of the following statements is NOT true?

- A) Fixed rates provide stability in international prices for the conduct of trade.
- B) Fixed exchange rate regimes necessitate that central banks maintain large quantities of international reserves for use in the occasional defense of the fixed rate.
- C) Fixed rates are inherently inflationary in that they require the country to follow loose monetary and fiscal policies.
- D) Stable prices aid in the growth of international trade and lessen exchange rate risks for businesses.

Answer: C

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Recognition

8) Which of the following is NOT an attribute of the "ideal" currency?

- A) monetary independence
- B) full financial integration
- C) exchange rate stability
- D) All are attributes of an ideal currency.

Answer: D

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Conceptual

9) If exchange rates were fixed, investors and traders would be relatively certain about the current and near future exchange value of each currency.

Answer: TRUE

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Conceptual

10) In London an investor can buy a U.S. dollar for £0.6102. In New York the £/\$ exchange rate is the same as found in London. Given this information, what is the \$/£ exchange rate in New York?

A) \$1.6388/£

B) £0.6102/\$

C) £1.6388/\$

D) \$0.6102/£

Answer: A

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Analytical

11) What was the annualized forward premium on the pound if the spot rate on May 6, 2011 was £0.6102/\$ and the 180 day forward rate was £0.5836/\$?

A) 8.72%

B) 9.12%

C) 4.56%

D) 18.23%

Answer: A

Diff: 2

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Analytical

12) The euro is a somewhat unique currency in that it is a floating currency within the member nations but it is rigidly fixed relative to other international currencies.

Answer: FALSE

Diff: 1

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Conceptual



## 2.3 Fixed versus Flexible Exchange Rates

1) The global recession of 2009/2010 saw the major global economic players (USA, China, and Europe) each choose the same international currency goals from the "impossible trinity". Meaning each felt an independent monetary policy was the most important goal followed by free movement of capital, and third, a policy of free floating currencies.

Answer: FALSE

Diff: 2

Topic: 2.3 Fixed versus Flexible Exchange Rates

Skill: Conceptual

2) Based on the premise that, other things equal, countries would prefer a fixed exchange rate, which of the following statements is NOT true?

A) Fixed rates provide stability in international prices for the conduct of trade.

B) Fixed exchange rate regimes necessitate that central banks maintain large quantities of international reserves for use in the occasional defense of the fixed rate.

C) Fixed rates are inherently inflationary in that they require the country to follow loose monetary and fiscal policies.

D) Stable prices aid in the growth of international trade and lessen exchange rate risks for businesses.

Answer: C

Diff: 1

Topic: 2.3 Fixed versus Flexible Exchange Rates

Skill: Recognition

3) Almost every nation today (over 90%) has a floating or perhaps a managed floating currency for the purposes of international currency exchange.

Answer: FALSE

Diff: 1

Topic: 2.3 Fixed versus Flexible Exchange Rates

Skill: Recognition

4) The authors discuss the concept of the "Impossible Trinity" or the inability to achieve simultaneously the goals of exchange rate stability, full financial integration, and monetary independence. If a country chooses to have a pure float exchange rate regime, which two of the three goals is a country most able to achieve?

A) monetary independence and exchange rate stability

B) exchange rate stability and full financial integration

C) full financial integration and monetary independence

D) A country cannot attain any of the exchange rate goals with a pure float exchange rate regime.

Answer: C

Diff: 2

Topic: 2.3 Fixed versus Flexible Exchange Rates

Skill: Conceptual

## 2.4 A Single Currency for Europe: The Euro

1) The Euro currency is fixed against other currencies on the international currency exchange markets, but allows member country currencies to float against each other.

Answer: FALSE

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

2) The use of EURO is obligatory to member countries of the European Union.

Answer: FALSE

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

3) European Central Bank (ECB) is

A) an independent central bank controlling the deficit levels of EU member countries.

B) an institution in charge of financial market intervention and issuance of the EURO.

C) does not have a mandate to promote price stability in the European Union.

D) part of the US Federal Reserve System.

Answer: B

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

4) Which of the following is NOT a required convergence criteria to become a full member of the European Economic and Monetary Union (EMU)?

A) National birthrates must be at 2.0 or lower per person.

B) The fiscal deficit should be no more than 3% of GDP.

C) Nominal inflation should be no more than 1.5% above the average inflation rate for the three members with the lowest inflation rates in the previous year.

D) Government debt should be no more than 60% of GDP.

Answer: A

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

5) Which of the following groups of countries have replaced their individual currencies with the Euro?

A) France, Germany, and the United Kingdom

B) Sweden, Denmark, and Greece

C) The United Kingdom, The Netherlands, and Austria

D) Germany, The Netherlands, and Italy

Answer: D

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

6) According to the authors, what is the single most important mandate of the European Central Bank?

- A) Promote international trade for countries within the European Union.
- B) Price, in euros, all products for sale in the European Union.
- C) Promote price stability within the European Union.
- D) Establish an EMU trade surplus with the United States.

Answer: C

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Conceptual

7) Which of the following is a way in which the euro affects markets?

- A) Countries within the Euro zone enjoy cheaper transaction costs.
- B) Currency risks and costs related to exchange rate uncertainty are reduced.
- C) Consumers and business enjoy price transparency and increased price-based competition.
- D) All of the above.

Answer: D

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Conceptual

8) The 1991 treaty that established a timetable to replace individual European currencies with the euro is referred to as the \_\_\_\_\_ Treaty.

- A) Zurich
- B) Yalta
- C) Maastricht
- D) Paris

Answer: C

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

9) Because there is now a European Central Bank (ECB), the members of the European Monetary Union have done away with their individual central banks.

Answer: FALSE

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

10) Since the launch of the euro in January of 1999, one nation has joined the original 11 members and three nations have dropped the euro as their official currency.

Answer: FALSE

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

11) The euro was launched in January 1999 with an official initial value against the dollar of \$1.16/€. As of January 2011 the currency exchange rate was \$1.40/€. Thus, over this time period the euro has \_\_\_\_\_ against the dollar by a total of \_\_\_\_\_.

- A) appreciated; 82.86%
- B) appreciated; 20.69%
- C) depreciated; 82.86%
- D) depreciated; 20.69%

Answer: B

Diff: 2

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Analytical

12) Since adopting the euro, all member nations have realized a significant reduction in unemployment rates.

Answer: FALSE

Diff: 1

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Recognition

## 2.5 Emerging Markets and Regime Choices

1) Beginning in 1991 Argentina conducted its monetary policy through a currency board. In January 2002, Argentina abandoned the currency board and allowed its currency to float against other currencies. The country took this step because

- A) the Argentine peso had grown too strong against major trading powers thus the currency board policies were hurting the domestic economy.
- B) the United States required the action as a prerequisite to finalizing a free trade zone with all of North, South, and Central America.
- C) the Argentine government lost the ability to maintain the pegged relationship as in fact investors and traders perceived a lack of equality between the Argentine peso and the U.S. dollar.
- D) all of the above.

Answer: C

Diff: 1

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Recognition

2) In January 2002, the Argentine peso was officially valued at a rate of Peso 1.40/USD. More recently the exchange rate is Peso 3.10/USD, thus, the Argentine peso \_\_\_\_\_ against the U.S. dollar.

- A) strengthened
- B) weakened
- C) remained neutral
- D) all of the above

Answer: B

Diff: 1

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Analytical

3) On September 9, 2000 Ecuador officially replaced its national currency, the Ecuadorian sucre, with the U.S. dollar. This practice is known as

- A) bi-currencyism.
- B) sucrerization.
- C) a Yankee bailout.
- D) dollarization.

Answer: D

Diff: 1

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Conceptual

4) You have been hired as a consultant to the central bank for a country that has for many years suffered from repeated currency crises and depends heavily on the U.S. financial and product markets. Which of the following policies would have the greatest effectiveness for reducing currency volatility of the client country with the United States?

- A) dollarization
- B) an exchange rate pegged to the U.S. dollar
- C) an exchange rate with a fixed price per ounce of gold
- D) an internationally floating exchange rate

Answer: A

Diff: 1

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Conceptual

5) A bank holiday

- A) occurs every day after 3:00 p.m.
- B) is a term used when a country's central government freezes (temporarily) all deposits in commercial banks.
- C) is observed in Europe every fourth Friday.
- D) occurs the last three working days of the year to prepare financial statements for tax purposes.

Answer: B

Diff: 1

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Recognition

6) Which of the following is NOT an argument against dollarization?

- A) The dollarized country's central bank can no longer act as a lender of last resort.
- B) The dollarized country can no longer profit from seignorage (the ability to profit from the creation of money within its economy).
- C) The dollarized country loses sovereignty over its own monetary policy.
- D) All of the above are arguments against dollarization from the viewpoint of the affected country.

Answer: D

Diff: 1

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Conceptual

7) Emerging Market Country must

A) implement fixed currency regime to substitute the ineffectiveness of its institutions to control the money supply.

B) implement free-floating currency regime to qualify for IMF's loan.

C) develop institutions and regulations enabling predictable and sustainable monetary policy regardless of the currency regime.

D) maintain political influence over its monetary institutions to preserve its national interest.

Answer: C

Diff: 2

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Conceptual

## 2.6 Globalizing the Chinese Renminbi

1) Which argument is true about Chinese Renminbi?

A) is preferred currency for international trade accounting for over 50% of all foreign trade settlements

B) is traded under fixed regime on China Onshore Market, but floating on its Hong Kong Offshore Market

C) is traded at the moment under managed float within +/- 1% against the US dollar parity rate set by People's Bank of China

D) has been constantly depreciating against the US dollar over the last 20 years

Answer: C

Diff: 1

Topic: 2.6 Globalizing the Chinese Renminbi

Skill: Recognition

2) According to the authors, one of the concerns for Peoples Republic of China driving restrictions on its capital flows is that

A) RMB can appreciate to an extent of eroding PRC's export competitiveness.

B) PRC can face rapid capital flight of Chinese Savings in search of high yielding returns.

C) growing unease over the ability of the US dollar and the Euro to maintain value over time.

D) All of the above

Answer: D

Diff: 2

Topic: 2.6 Globalizing the Chinese Renminbi

Skill: Recognition

## 2.7 Exchange Rate Regimes: What Lies Ahead?

1) All exchange rate regimes must deal with the trade-off between rules and discretion.

Answer: TRUE

Diff: 1

Topic: 2.7 Exchange Rate Regimes: What Lies Ahead?

Skill: Conceptual

2) All exchange rate regimes must deal with the trade-off between cooperation and independence.

Answer: TRUE

Diff: 1

Topic: 2.7 Exchange Rate Regimes: What Lies Ahead?

Skill: Conceptual

3) The authors state that the current international monetary system is characterized by strict rules and high degrees of cooperation.

Answer: FALSE

Diff: 1

Topic: 2.7 Exchange Rate Regimes: What Lies Ahead?

Skill: Recognition

### Essay Questions

## 2.1 History of the International Monetary System

1) Most Western nations were on the gold standard for currency exchange rates from 1876 until 1914. Today we have several different exchange rate regimes in use, but most larger economy nations have freely floating exchange rates today and are not obligated to convert their currency into a predetermined amount of gold on demand. Occasionally several parties still call for the "good old days" and a return to the gold standard. Develop an argument as to why this is a good idea.

Answer: The gold standard forces a nation to maintain sufficient reserves of gold to back its currency's value. This helps control inflation, as a country cannot print additional money without sufficient gold to back it up. The gold standard eases international transactions as there is little uncertainty about exchange rates for trade with foreign countries. A stable currency could also act as a deterrent to the large trade deficits developed by some countries such as the United States.

Diff: 3

Topic: 2.1 History of the International Monetary System

Skill: Conceptual

## **2.2 IMF Classification of Currency Regimes**

1) List and explain the three attributes of the "ideal" currency. Why are these referred to as "the impossible trinity"?

Answer: The first attribute is exchange rate stability (ERS). With ERS the value of a currency would be fixed relative to other major currencies, thus assuring traders of relatively stable values and reduce the uncertainty of floating exchange rates and uncertain values. The second attribute is full financial integration (FFI). With FFI, traders would be willing and able to move funds from one country to another in response to economic opportunities or risks. Finally, we have monetary independence (MI). With MI, each country is free to set domestic interest rate and monetary policies to pursue economic and political objectives.

Together, these attributes of the ideal currency form the impossible trinity because a nation cannot effect all three characteristics of their currency at one time. A floating exchange rate works for financial integration and monetary independence, but at the expense of exchange rate stability. Stable exchange rates brought on by tight national controls may allow monetary independence, but would then sacrifice full financial integration in the world markets. The bottom line is you can't have all three at once.

Diff: 3

Topic: 2.2 IMF Classification of Currency Regimes

Skill: Conceptual

## **2.3 Fixed versus Flexible Exchange Rates**

1) There are no questions in this section.



## 2.4 A Single Currency for Europe: The Euro

1) On January 4, 1999 the member nations of the EMU introduced a new unified currency, the euro, to replace the individual national currencies of many member nations. Identify and explain several of the arguments made both for and against the euro. Do you think the euro has proven to be a "good" idea? Why/Why not?

Answer: Arguments for the euro include a stable currency for trading among the several member nations and eliminating the need to exchange currencies to make cross-border transactions among member nations thus increasing transactional efficiency and eliminating exchange rate risk. Other advantages include unification of the several European markets, transparency of prices in the member countries, and a larger market to compete against the United States.

Arguments against the euro include a loss of national heritage and pride in losing a long-held domestic currency. Governments lose exclusive control over seignorage, lack of national autonomy in fiscal and monetary policy, and inequality among member states in their production and financial market strengths and weaknesses. Member nations are forced to go along with the group even if a particular action does not maximize value to the individual countries.

As for whether the euro has been good or bad, this is an opinion piece for each student.

Diff: 3

Topic: 2.4 A Single Currency for Europe: The Euro

Skill: Conceptual

## 2.5 Emerging Markets and Regime Choices

1) The mobility of international capital flows is causing emerging market nations to choose between a free-floating currency exchange regime and a currency board (or taken to the limit, dollarization). Describe how each of the regimes would work and identify at least two likely economic results for each regime.

Answer: With free float the exchange rate is market determined and beyond the control of the country's central bank or government. The economic results are likely to be an independent monetary policy, free movement of capital, but less stability in the exchange rate. Such instability may be more than an emerging market country's small financial market can bear. A currency board on the other hand is an implied legislative commitment to fix the foreign exchange rate with a specific currency, generally the country's major trading partner.

Dollarization is taking this policy to the extreme whereby the emerging market nation forgoes its currency for that of its major trading partner. An example of Dollarization is Panama using U.S. dollars as the official Panamanian currency. With such a regime, independent monetary policy is lost and political influence on monetary policy is eliminated. Further, the benefits accruing to countries as a result of the ability to print its own money, seignorage, is lost.

Diff: 3

Topic: 2.5 Emerging Markets and Regime Choices

Skill: Conceptual

## **2.6 Globalizing the Chinese Renminbi**

1) There are no questions in this section.

## **2.7 Exchange Rate Regimes: What Lies Ahead?**

1) There are no questions in this section.