

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (15 points each) For each of the following, explain why the Maastricht Treaty required the condition to hold before the country could join the Euro Area.

A) Inflation could not exceed the average inflation rate of the three Community nations with the lowest rate, by more than 1.5%.

B) The government debt must not exceed 60% of GDP.

2) (20 points) A group of Central or South American countries have dollarized. What are the advantages of dollarization over a fixed exchange rate? Why would they choose the US\$?

3) (20 points) What are the differences between a fixed exchange rate and a fixed exchange rate with a band? What are the advantages of each?

4) (15 points each) For each of the countries below, what type of exchange rate regime would you use if you ruled that country? If you choose any of the versions of the peg, tell me which country's currency you would tie it to and why you would tie it to that currency. You can choose any of the exchange rate regimes mentioned in the book. You need not choose the one the country uses.

A) Bangladesh

B) Turkey