Wilf Csaplar Jr. Economics 488(365) Homework #11 Due Tuesday 4/22?

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. Failure to follow these directions will cost you 1 point on the assignment.

Because this course has both a homework assignment and a test due during its last week, the assignments must slowly begin moving to come due at the beginning of each week. Therefore, I propose that each assignment be due on the day of the week prior to the day of the previous assignment. Therefore, this assignment will be due on Tuesday. If this date is poor, we can change it. Do we want to meet on Monday at the 4:00 or Tuesday at 4:00? The advantage of changing the day is that the material will be fully discussed before the assignment will come due.

I will have a review sheet for exam #3 by the end of the day Thursday. I plan to write the review sheet for the comprehensive in this course at that time.

This assignment covers chapter 21.

1) (25 points) Having a currency with seigniorage benefits can be disadvantageous with fixed exchange rates and advantageous under a flexible exchange rate regime. Explain the reasons for this.

2) (20 points) If you were the head of the central bank of a country, how would you decide whether to have a fixed or a floating exchange rate? Which factors of your economy would you examine? (For example, size, openness, volume of trade, trading partners, and which products are traded.) What other factors would you consider? (For example: ability or inability to do fiscal and monetary policies.) Explain your logic. The factors I listed may not be of concern to you and you may want to consider other factors. There is no reason to include everything I listed. However, do mention at least one factor that would lead you to choose a floating exchange rate and at least one factor that would lead you to choose a fixed exchange rate.

3) (20 points) The book says that capital flows are a major cause of the fluctuation in exchange rates. Explain why they would have a major effect in the short-run while the goods market would have a major effect in the long-run.

4) (25 points) What are target zones for exchange rates? How would they improve the current foreign exchange market? What are their disadvantages?

5) (10 points) The appendix to chapter 20 says that Jordan has its currency tied to the SDR. What is an SDR and why would a government want to tie to it?