INTERNATIONAL ECONOMICS
HOMEWORK 8
17/01/2014

1. List at least five different currency regimes and order them ranging from completely flexible to fixed. Briefly explain the regimes and find at least one real world example for each.

2. Mathematically, combine the log-linear money market, PPP, and uncovered interest rate equations to establish a relationship between nominal money supply, the exchange rate, its expected rate of change, domestic output, the foreign price level (all in logs), and the foreign or world interest rate. Using this equation, explain how fixing the exchange rate restricts domestic monetary policy.

3. Consider a developing country whose semi-elasticity of money demand with respect to the interest rate is 1 and for which $\eta y + p^{*} - \lambda i^{*} = 10$.Suppose the central bank wants to fix the exchange rate at 100 local currency units to the Euro— how does it have to set money supply?

4. **“**Ten years into its existence, the Euro is a resounding success. The single currency has become a symbol of Europe, considered by Euro-area citizens to be among the most positive results of European integration…., Barely five years after the European Commission issued this 2008 celebration of its new currency, the statement seems highly ironic. Europe is locked in a struggle for the survival of the euro—and indeed, for the prosperity of the continent and its people.” Peter Hall (2013) . In view of such remarks, discuss the pros and cons of a monetary Union.