# Hand-out week 9

**This week:**

- Intermezzo: different currency regimes

7. Monetary Approach (cont'd):

   7.4. Turning the model around: fixed exchange rates.

8. Currency Crises: the Krugman model

9. International Monetary System: the IMF and debt crises

**Readings:** Krugman & Obstfeld, chpts 17–19.

**Practice problems:**

1. Explain graphically, mathematically, and intuitively why a fixed exchange rate ties down monetary policy.

2. Consider a central bank's balance sheet. Describe the effects of an open market operation in the domestic bond market. Do the same for an intervention in the foreign exchange market. What does it mean for the central bank to sterilize the latter transaction?

3. Explain verbally why a fixed exchange rate regime and a continued fiscal expansion are a recipe for a currency crisis.

4. Show graphically and mathematically why the crisis occurs before the country slowly runs out of foreign reserves.

5. Research the IMF. Who are the main actors? What areas of economic policy does the IMF focus on? How does it define its role? What do the critics say?