Study Questions

Lecture 16
Currency Manipulation and Currency Wars

Part 1: Multiple Choice

Select the **best** answer of those given.

1. Currency manipulation is intended to

   a. Fight inflation
   b. Strengthen the value of the country's own currency
   c. Weaken the value of another country's currency
   d. Cause currency depreciation in order to stimulate exports
   e. All of the above

2. Which of the following is **not** required for a country to be named a currency manipulator by the US Treasury Department?

   a. It conducts substantial trade with the US
   b. It has a bilateral trade surplus with the US
   c. It holds large amounts of US dollar assets
   d. It has a current account surplus
   e. It repeatedly purchases foreign exchange

3. Why did China stop letting its currency appreciate for a year or more after 2008?

   a. The US asked it to stop
   b. The US dollar rose due to "flight to safety" and China just rose with it.
   c. It ran out of the international reserves needed to support its currency
   d. It didn't. Other currencies were depreciating.
   e. Support from the IMF required it to stabilize its currency

4. According to the *Economist*'s index of currency manipulation, was China ever a currency manipulator?

   a. No
   b. Yes, from 2000 to 2005
   c. Yes, from 2014 to 2017
   d. Yes, from 2000 to 2014
   e. Yes, from 2000 to 2005 and again from 2014 to 2017

5. In the currency war of the 1930s, how did many countries cause their currencies to depreciate?

   a. By going off the Gold Standard
   b. By raising import tariffs on many goods
   c. By hoarding precious metals
   d. By buying the currencies of other countries
   e. By causing inflation

6. What harm will it do if all countries depreciate their currencies by, say 20%?

   a. Countries will cease to import
   b. Consumers will prefer domestic products
   c. World wealth will fall by 20%
   d. Stock markets will crash
   e. No harm.

Part II: Short Answer

Answer in the space provided

1. Suppose that the United States responds to perceived currency manipulation by
    China by intervening in the foreign exchange market to reduce the value of the
    US dollar. Which of the following countries might have reason to respond to that
    action with an action of their own, what might be that reason, and how would they
    respond?

			How? (appreciation or depreciation)
Respond?	Country	Possible reason	
	Australia	_____	_____
	Belgium	_____	_____
	China	_____	_____
	Peru	_____	_____

2. The assigned reading by Mihm tells the story of the currency war in the early
    1930s. Fill in the blanks in the following rendition of that story:

    It started with the failure of a bank, Credit-Anstalt in _____ . A liquidity

    crisis in Europe caused gold to flow out of Britain. Rather than raise interest

    rates, Britain chose to leave the _____ standard. This caused a large

    _____ of the British _____ . As many as 20 other countries

    then responded to the British action by doing the same, so multiple countries had their

    currencies _____ in value. Other countries, called the gold bloc, used

    _____ instead