Study Questions
(with Answers)

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

   Ans: d

2. Which of the following is **<u>not</u>** 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

   Ans: c

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

   Ans: b

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

    Ans: d

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

    Ans: a

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.

    Ans: e

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?

Respond?	Country	Possible reason	How? (appreciation or depreciation)
Yes	Australia	*Reduced exports of wool to US*	*depreciation*
Yes	Belgium	*Increased exports of wine from US*	*depreciation*
Yes	China	*US action undid their own*	*depreciation*
Yes	Peru	*Fewer tourists from US*	*depreciation*

(The point is that the US depreciation affects all countries, not just China, and all may have incentive to depreciate their own currencies.)

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 ____*Austria*____. A liquidity crisis in Europe caused gold to flow out of Britain. Rather than raise interest rates, Britain chose to leave the ____*gold*____ standard. This caused a large ____*depreciation*____ of the British ____*pound*____. As many as 20 other countries then responded to the British action by doing the same, so multiple countries had their currencies ____*fall*____ in value. Other countries, called the gold bloc, used ____*tariffs.*____ instead.