Study Questions

Lecture 20 International Policies for Economic Development: Financial

Part 1: Multiple Choice

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

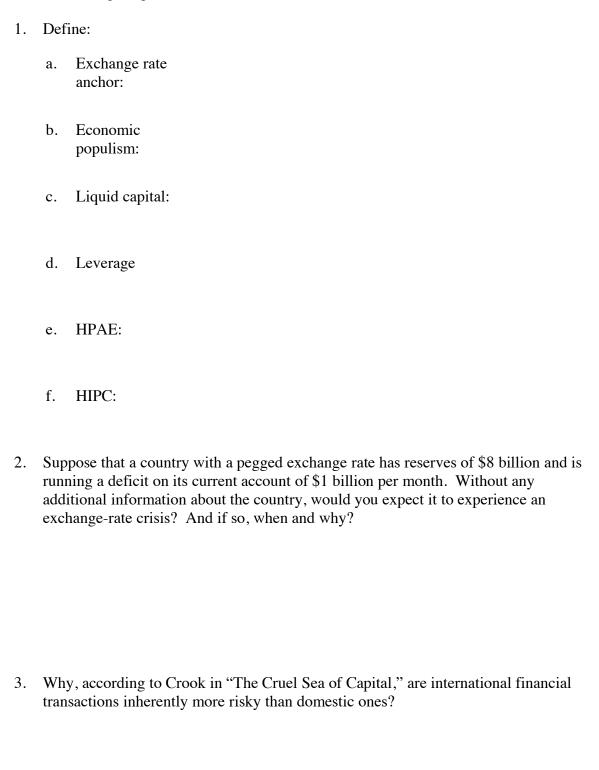
- 1. Developing countries have often chosen to establish pegged exchange rates because
 - a. This prevents the depreciation that would otherwise occur due to their high inflation.
 - b. With small economies, it is easier for them to peg their currency than it would be for a large country.
 - c. A pegged rate imposes discipline on their government and central bank, helping to prevent inflation.
 - d. Economists advise that countries with pegged exchange rates are able to grow faster than countries with floating exchange rates.
 - e. A pegged exchange rate can be used to make their exports more competitive on world markets.
- 2. Which of the following did **not** contribute to the debt problems that many developing countries encountered in the early 1980s?
 - a. The rise in oil prices
 - b. Recession in the United States
 - c. Appreciation of the U.S. dollar
 - d. The drop in developed country tariffs negotiated in the Tokyo Round
 - e. Developing country inflation

- 3. Which of the following is **not** one of the possible results of a developing country **permitting** capital inflows?
 - a. Its labor force becomes more productive as a result of having more capital to work with.
 - b. Its banks can borrow abroad at low interest rates and lend at home at higher interest rates.
 - c. If its currency depreciates, those of its residents who borrowed on world capital markets may go bankrupt.
 - d. Multinational corporations buy up domestic firms and manufacturing facilities.
 - e. Domestic firms invest their profits in foreign markets.
- 4. Which of the following is **not** one of the possible costs of a developing country **restricting** capital inflows?
 - a. The restrictions are difficult and costly to enforce.
 - b. Consumers pay more for imported goods.
 - c. Firms distort markets when they try to evade the restrictions.
 - d. Domestic financial markets are insulated from competition.
 - e. Domestic firms pay more to finance investment.
- 5. Which of the following is **not** one of the reasons given by Krueger and Srinivasan, in their article "The Harsh Consequences of Forgiveness," for not forgiving the debts of the heavily indebted poor countries?
 - a. Poor countries must help themselves, not rely on others, in order for their progress to be lasting.
 - b. High debts are often the result of misguided government policies in the past, which are likely to be repeated.
 - c. Not all poor countries are heavily in debt, yet they too need help.
 - d. Past episodes of debt relief have not benefited the poor.
 - e. Direct use of resources to benefit the poor is more likely to help them.

- 6. Financial crises in developing countries occur when expectation of depreciation causes foreigners to withdraw their capital from the country. Why, then, would it not be a good idea for countries to restrict capital outflows in order to prevent such crises?
 - a. It would be unfair to the owners of the capital.
 - b. Capital controls are against the rules of the World Trade Organization.
 - c. Restrictions on capital outflows would discourage capital inflows and ultimately slow development.
 - d. Capital controls would reduce the incentive for research and development, slowing technological progress.
 - e. Capital outflows are a major source of assistance from the International Monetary Fund.
- 7. According to the Clive Crook, in "A Cruel Sea of Capital," international capital markets are more prone to mistakes than goods markets because
 - a. Asset prices are moved artificially by speculators.
 - b. Values of assets depend on the future, which is hard to know.
 - c. Governments are making decisions in capital markets, instead of private-sector firms.
 - d. It is easier to commit fraud in financial markets than in goods markets
 - e. The value of a good is based directly on the value of the labor needed to produce it.

Part II: Short Answer

Answer in the space provided.



- 4. The table below lists the names of several countries (or administrative regions, in the case of Hong Kong). Indicate with check marks in the corresponding columns
 - a. Which country was the **first** to be hit by the Asian Crisis of 1997
 - b. Which country was hit the worst by the crisis?
 - c. Which countries suffered **more than a 30%** depreciation of their currencies in the Asian Crisis?
 - d. Which countries suffered significant but smaller depreciations, at most 20%?
 - e. Which countries experienced no depreciation at all?

	First	Worst	> 30%	< 20%	0
Chile					
China					
Hong Kong					
Indonesia					
Hidolicsia					
Kenya					
Malaysia					
Philippines					
Taiwan					
Thailand					
Singapore					
South Korea					