

Questions for PubPol/Econ 541
Sep 18

Exchange Rates

KOM, Ch 14, pp. 350-360:

- Is an exchange rate the price of one country's goods in terms of another's, or the price of one country's assets in terms of another's?
- How important are foreign exchange transactions by individual consumers as part of the foreign exchange market?
- How big must an exchange market transaction be in order to qualify for the exchange rates reported in the newspapers?
- What hours of the day are the exchange markets open?
- What is a vehicle currency, and what currency is most likely to play that role in today's world? How are exchanges of two non-vehicle currencies accomplished?
- In the context of the foreign exchange markets, what are examples of "arbitrage" and "hedging"?

Economist, "The Big Mac index: What the Big Mac index says about the dollar and the dong," 2021

- On what basis does this article rank countries?
- What exchange rate theory is this applying or testing, and what does it say?
- Why does this article focus on the Vietnamese currency, the dong?
- What criteria do the US Treasury use to identify an undervalued currency ("currency manipulation," though that term is not mentioned here)?
- Is Vietnam's poverty relevant to this?

Economist, "What comes after Bretton Woods II?" 2019.

- What names and characteristics describe the three international monetary regimes that this article describes, the last of which may be coming to an end?
- Why did the world not shift to using dollars, euros, and renminbi more equally for transactions and reserves?
- Why is currency stability so hard to achieve?
- What are the two scenarios that the author sees may happen next?

McDougall, Mary, "US Dollar to Maintain Dominance Over Next Decade, Say Central Banks," *Financial Times*, June 27, 2023.

- Why do central banks hold foreign-currency reserves?
- Has holding of US dollar reserves by central banks declined over time, and what is expected in the near and farther future?
- Who is mentioned as wanting reduced reliance on the dollar?
- What currency is most likely to expand being held?

Optional to Read:

Economist, "Patty-purchasing power: The dollar is now better value, says the Big Mac index," *the Economist*, August 3, 2023.

- How did Big Mac inflation (it's rise in price) compare in other countries reported here to the US?
- What does purchasing power parity (if applied only to the price of the burger) say those currencies should have done compared to the dollar? Did they?
- What seems to have happened here, according to the *Economist*?