**CHAPTER 15**

1. During an exchange rate crisis, the central bank must raise the interest rate. What is the main reason?
2. To reduce domestic demand for imports
3. To stimulate domestic demand
4. **To compensate foreign financial investors for increased risk of devaluation**
5. To compensate foreign financial investors for lower profits in industry
6. To compensate foreign financial investors for increased risk of domestic inflation
7. In order to defend a fixed exchange rate you need \_\_\_\_\_\_\_\_\_\_\_\_\_\_
8. To regulate capital flows
9. Free capital flows
10. Current account balance
11. **Fiscal policy to balance domestic shocks**
12. Monetary policy to balance domestic shocks
13. Which of the following statements best describes the experience of countries with flexible exchange rates and explicit inflation targeting?
14. **Real and nominal exchange rates fluctuate a lot and they are positively correlated**
15. Real and nominal exchange rates fluctuate a lot and they are negatively correlated
16. Real and nominal exchange rates fluctuate a lot and they are largely uncorrelated
17. Real exchange rates are stable while nominal exchange rates fluctuate
18. Nominal exchange rates are stable while real exchange rates fluctuate
19. Which of the following statements does best describe the experience of countries with flexible exchange rates and explicit inflation targeting?
20. The real exchange rate fluctuates a lot and is positively correlated with the trend deviation in GDP
21. The real exchange rate fluctuates a lot and is negatively correlated with the trend deviation in GDP
22. **The real exchange rate fluctuates a lot and is largely uncorrelated with the trend deviation in GDP**
23. The real exchange rate is rather stable and uncorrelated with the trend deviation in GDP
24. Which of the following would make the case for forming a monetary union *stronger*?
25. Innovations reduce the cost of exchanging currencies
26. Reduced the costs of buying and selling currencies in the forward market
27. Reduced labour mobility because high unemployment makes it hard to find jobs everywhere
28. **Exports and imports increase relative to GDP**
29. Which of the following would ease the adjustment to shocks within a monetary union?
30. **The European Union gets a larger share of the taxes we pay**
31. Equalization of nominal wages
32. Workers can be counted on to stay in the country even if times are bad
33. National fiscal policy aims at budget balance at all times
34. As concerns fiscal policy, what was the philosophy in the Maastricht treaty?
35. National fiscal policy should be under strict control by the European Central Bank
36. National fiscal policy should be under strict control by the council of finance ministers (ECOFIN)
37. To increase the role of the common fiscal policy, the budget of the EU should be increased
38. National fiscal policy should be determined completely on the national level
39. **National fiscal policy should be determined on the national level but subject to certain rules**
40. What happens as an economic area becomes more integrated, economically and politically?
41. The costs of monetary union increase and the benefits of monetary union decrease
42. **The costs of monetary union decrease and the benefits of monetary union increase**
43. The costs of monetary union decrease and the benefits of monetary union remain unchanged
44. The benefits of monetary union increase while the costs remain unchanged
45. Greater political integration is considered as a factor that strengthens the case for a monetary union. Which of the following is the strongest reason for this?
46. Political integration contributes to exchange rate stability
47. Political integration has a positive effect on trade
48. Political integration makes the common central bank more independent
49. **Political integration makes it easier to cooperate on fiscal policy**
50. What happened *before the crisis* in most of the countries which saw their currencies depreciate during the ERM crisis in 1992?
51. **These countries had high inflation and appreciating real exchange rates**
52. These countries had appreciating nominal exchange rates
53. These countries had low inflation and depreciating real exchange rates
54. These countries had low inflation and depreciating nominal exchange rates
55. Comparing the euro countries with five inflation targeting countries (Australia, Canada, New Zealand, Sweden, United Kingdom) for the period 1999-2010, what do we find?
56. Inflation was one percentage unit lower in the euro countries and real growth was about the same
57. **Inflation was about the same in the euro countries and real growth was one percentage unit lower**
58. Inflation and real growth were one percentage unit lower in the euro countries
59. Inflation and real growth were one percentage unit higher in the euro countries
60. Inflation and real growth were about the same in the euro countries
61. Fiscal policy is very important in the European Monetary Union. What is the main reason?
62. Fiscal policy is more important in an open than in a closed economy
63. Fiscal policy is determined on the union level
64. Monetary policy has been delegated to the European Central Bank
65. **Countries cannot use monetary policy to address country-specific problems**
66. Which of the following is **not** a part of the fiscal framework in the EU (the Maastricht rules/ the Stability and Growth Pact)?
67. The public sector deficit should not exceed 3 percent of GDP
68. Gross consolidated government debt should not exceed 60 percent of GDP
69. **Government expenditure should not exceed 60 percent of GDP**
70. Countries with fiscal problems should not be bailed out by the European Union