1. If you were assigned to design an ideal international financial system, which goals would you try to achieve? What are the major tradeoffs between these goals? Which (ex ante and ex post) political conflicts and limitations would you need to consider (i.e. try to overcome) in designing such a system?

2. According to Barry Eichengreen, an international monetary system as “a set of rules or conventions governing the economic policies of [sovereign] nations” is an unnatural state of affairs. According to authors such as Eichengreen, Ikenberry and others, which factors and choices facilitate the cooperation and coordination necessary for the establishment of an international monetary system? Which type of hegemonic power is conducive to international cooperation?

3. Which characteristics of the financial markets today (for example compared to the Gold Standard and Bretton Woods eras) increase the need to restrict international financial flows? Which characteristics make such restrictions difficult to apply?

4. What is the ‘impossible trinity’? Has the transition to floating exchange rates allowed governments to have domestic policy autonomy? Has it eroded the need for international policy cooperation (e.g. among G-7 countries)? Why, or why not?

5. (In relation to the above question) How does the experience of the interwar era affect our views on exchange rate stability?

6. Which international and domestic political factors have led to the breakdown of the Bretton Woods financial system (i.e. capital account liberalization and transition to floating exchange rate regimes)?

7. According to Goodman and Pauly (“Obsolescence of Capital Controls”), which factors led to capital liberalization in industrialized countries? What explains which countries liberalized first?
8. According to Randall Henning, which three reasons explain why bank-industry relations affect a country’s external monetary policies (e.g. see p. 6)?

9. Among the US, Japan and Germany, which one had the most activist external monetary policy until the mid-1990s (that is, it consistently employed exchange rate intervention, domestic monetary policy, capital controls and policies, and the discouragement of its currency’s role as a reserve currency, in order to achieve exchange rates that would maintain its industries’ international competitiveness)? Why?

10. With liberal capital markets and floating rate regimes, do governments still need to implement currency policy? According to the lecture notes, which domestic political groups benefit from a “strong” (overvalued) currency and which groups benefit from a weak currency?

11. According to the lecture notes, which domestic political groups do you expect to favor a fixed exchange rate regime?

12. Consider a coalition government facing a predetermined election in a year. The country has a plurality vote election system. Do you expect this government to favor flexible or fixed exchange rates? Discuss.

13. Which factors and considerations should affect Turkey’s decision to choose a “hard peg” currency regime, which the Murat Üçer reading advocates?

14. Define deficit and surplus countries and explain why they may feel the need to eliminate their surpluses or deficits. What are the different policy tools available to their governments to do so?

15. What is asymmetry in adjustment? Why is there an asymmetry?

16. In the 1980s, the US (a deficit country) called on surplus countries such as Japan and Germany to cut taxes and increase spending. Why did the US do that? What did S-countries demand in turn? If the US had been more trade-dependent, could it have succeed in ensuring the policy changes it wanted?
17. What are the major international institutions that deal with the international regulation of banking and securities markets? Why can’t countries individually regulate these markets (hint: regulatory arbitrage)? Is such international regulation compatible with state interests and economic regionalization?

18. According to Dani Rodrik, why is importing capital theoretically beneficial, but in practice causes problems for some countries?

19. Gavin and Rodrik argue that the World Bank’s foundation was a great success. Accordingly, what do we learn from this success regarding the characteristics of a successful international financial institution?