

Chapter 5

1. Explain why time is against fixed exchange rate regimes.
2. Explain the difference between the first and second-generation models of exchange crises.
3. How can one make fixed exchange rate regimes more robust?
4. Explain why fixed exchange regimes tend to become asymmetric in that one country sets monetary policy for the system as a whole.
5. Show that when an asymmetric shock occurs, a symmetric intervention system will distribute the cost of adjustment to the shock better.
6. How can one measure the credibility of a fixed exchange rate regime?

Chapter 6

1. Can you give a good justification of why countries should lower their government debt levels prior to entry into the monetary union?
2. What is the “no-bail-out” clause in the Maastricht Treaty? Is this clause likely to be credible?
3. Why is the Maastricht interest rate convergence requirement superfluous?
4. Where do the 3% budget deficit criterion and the 60% debt level criterion come from?
5. Some Southern Eurozone countries and Ireland experience higher nominal growth rates of their GDP than the average Eurozone countries . What does this imply for their debt to GDP ratio (as compared to the debt to GDP ratios of the average Eurozone country) if they adhere to the budget deficit criterion?
6. Why was it important to announce fixed bilateral conversion rates prior to the start of EMU?