

ECONOMICS 40223
International Monetary Economics
Study Questions for Semester (Fall 2019)

INSTRUCTIONS: You will find below study questions designed to guide your studying. **A subset of these exact questions will appear on your exams.** You are under no obligation to complete them but there is, not surprisingly, a high correlation between doing these and earning a high grade! Please bear the following in mind:

General issues

- The exams are weighted such that a perfect score on all the questions from the list below earns you at least a low B. A's are reserved for those who also answer the "hell" questions correctly. That said, data from previous classes show that there is a high correlation between doing well on the non-hell portion of exams and scoring highly on the hell portions.
- I am also happy to check over your answers to make sure they are correct. Just send a copy to j.harvey@tcu.edu. Please see below for the dates by which I'll need to receive your answers.
- You are free to reword any lecture or reading question however you like. However, always be sure to send it to me on your study question list so that you can be sure that I agree it includes all the important information—don't wait until the exam to find out!
- If I check your study questions and accidentally approve an incorrect answer that you then give on an exam, you get full credit. If I initially subtract points, just let me know and I'll fix it. That's the John Harvey Guarantee!
- If you are resending questions to me, please let me know which ones are new and/or adjusted from last time so I don't have to check the entire list all over again.
- Studying involves taking this list and a blank piece of paper and writing out the answers until, according to your list of answers, you don't make any mistakes. **THERE IS SIMPLY NO SUBSTITUTE FOR DOING THIS!**

Reading questions

- The place where the study questions are the most helpful is on the readings (I write the lecture answers on the board). As a rule, I don't go over these in class and the study question list prevents you from having to guess which parts of "The Blessings of Free Trade" I expect you to remember for the exam. I tell you up front!
- Be sure to actually read the articles and not simply harvest them for the study question answers. If you do the latter, you won't really understand the context and you'll end up having to memorize. There's too much material to do that. Those who use someone else's study question answers face the same problem. I don't actually want you to just know what's on the list, I hope you learn much more than that. However, I'm only going to test you over the list.

Using someone else's answers

- There is no rule against this. The study questions are not an assignment.
- If you and a friend (or enemy or bystander) worked on the questions together, please let me know when you send the questions to me so that I can be sure you both get the John Harvey Guarantee.
- If you did not work together but choose to use someone else's already-corrected study questions, please do not send them to me unedited. In other words, if I indicated on their answers that they needed to make adjustments, make these first. In addition, let me know which ones have been adjusted so I don't have to check the entire list all over again. **If you already know they have been checked, please don't send them at all.** Just email me saying, "I'm using Victor Boschini's study question answers!" and then you'll get the John Harvey Guarantee based on their answers. (FYI, he's never take this course so you should probably use someone else's. That was just an example.)
- If you choose to use someone else's study questions from a previous semester, all of the above apply plus one more: please see if the questions are the same as in the previous semester (I add and subtract whole questions and change the wording on others). If this hasn't been done, I'll return the questions unchecked.

Study question organization

- Questions are grouped by their source. For examples, questions based on lecture material have *Lecture* before them, and then appear without spaces between them. For questions where answers can be found in the reading, the specific link is given and the questions are then grouped without spaces.
- **Green questions may also appear on the final exam.**

Study question deadlines

- Anyone wanting their exam one study questions checked must have submitted them to me by midnight, Thursday, September 19.
- Anyone wanting their exam two study questions checked must have submitted them to me by midnight, Tuesday, October 29.
- Anyone wanting their final exam study questions checked must have submitted them to me by midnight, Tuesday, December 10.
- **Deadlines apply whether you take that exam at the regular time or not.**
- I do not recheck the green questions on the final exam list since they were subject to one of the two earlier deadlines.

Study question format

- Please send your answers as Word attachments (or the like). That makes it much easier to type corrections directly into your document.

REMEMBER-TO-KNOW GOALS

The pedagogical literature suggests that the instructor not only come up with some realistic goals regarding what they expect students take with them after the semester is over (basic concepts that you no longer have to try to *remember* because you simply *know* them), but to also share these with the class. Well, here they are in rough order of importance!

- Currency prices are a function of international financial capital flows;
- movements of international financial capital are a function of agents' forecasts of short-term capital gain;
- those forecasts are unstable and focus primarily on psychological and behavioral factors;
- under current conditions, there is no reason to expect exchange rates or financial capital flows to move in a manner that improves the welfare of the citizens in the economies in question.

BACKGROUND

Lecture

1. Distinguish between validity and cogency. [25 words]
2. List the balance of payments accounts. [92 words]
3. What is a floating or flexible exchange rate system. [13 words]

The Basics of Foreign Trade and Exchange

http://personal.tcu.edu/jharvey/40223/Basics_of_FX.pdf

4. What are the three main centers of trading, which handle the majority of all FX transactions? [3 countries]
5. According to the Federal Reserve Bank of New York, what are the four types of foreign exchange market participants? Please describe each in a sentence. [81 words]

Wikipedia: Foreign Exchange Market

http://en.wikipedia.org/wiki/Foreign_exchange_market#Financial_instruments

6. List and explain the following five financial instruments available in the foreign exchange market: spot, forward, future, swap, and option. [117 words]

Wikipedia: Fixed Exchange Rate

http://en.wikipedia.org/wiki/Fixed_exchange_rate

7. What is a fixed or pegged exchange rate? [35 words]
8. Generally speaking, what does maintaining a fixed exchange rate entail in terms of what the country's central bank must do? [56 words]

PowerPoint: Macro Lecture from Aspen_Wealth_Management

PowerPoint: Financial Sector

Harvey: An Economic Framework for Studying Cyber Security Issues, Military Cyber Affairs, vol.3, no.1, 2018 (click on download)

<https://scholarcommons.usf.edu/mca/vol3/iss1/4>

9. According to the discussion that starts on page 7, what is the primary determinant of employment? [1 word]
10. In a world with no government sector or trade, savings must be equal to investment. Which, however, is the driver? With respect to the one that simply follows, why is it largely a residual? [20 words]
11. What is, in reality, the only way to truly save more and why is that? [23 words]
12. Why is trust absolutely critical to a well-functioning financial system? [18 words]
13. Mortgages, college and car loans, and the financing of appliance purchases all create what? [1 word]
14. Why do central banks automatically supply reserves when the banking system runs short of the requirement? [16 words]

15. Investment, the key determinant of demand, is extremely expensive and represents a long-term and largely irreversible commitment. On top of that, the nature of the real world is such that entrepreneurs lack the basis for making reliable forecasts of future profit. Why, then, does anyone invest at all? [5 words]
16. Why will the main part of an economic upturn not continue indefinitely? How does this create a recession (sometimes catastrophically)? [109 words]
17. How do stock prices affect firm behavior and financing beyond the initial offering? [53 words]
18. How is it that a loan shows up on both sides of a bank's balance sheet? While they clearly don't need anyone's savings to make the loan, why do they not (at least initially) even worry about having sufficient reserves to make the loan and when they do look for those reserves, where will they go first? [33 words]
19. Commercial banks and similar institutions do not realistically face what kind of constraints in lending? [2 words]
20. What is the real key to an institution's financial wealth? That number indicates what in terms of how far they are from insolvency? [18 words]
21. What was Lehman Brothers net worth-to-asset ratio in 2008? How much did the market lose in about a week in 2008? [8 words]
22. Why is the fact that individuals are less reluctant to commit to financial than physical investment a mixed blessing? When is the negative side particularly true and why might one particularly expect problems at the top of the business cycle? Last, what are individuals and financial institutions constantly tempted to do? [119 words]

EXCHANGE RATE DETERMINATION: POST KEYNESIAN

Currencies, Capital Flows, and Crises: Chapter One

23. In the first few pages, what does Harvey appear to be arguing will be the key element of the Post Keynesian view in terms of what drives exchange rates? [37 words]
24. What three things does the Institutionalist influence on the book mean for foreign exchange (hint: organization, a priori assumption, and market behavior)? [120 words; three things]

Lecture

25. In the Neoclassical or Mainstream model, what maintains the equality of investment and saving and at the same time guarantees full employment? This is also called the loanable funds theory of interest. Note that this is also explained in the book on pages 5-6. [95 words plus graph]
26. In Keynes' model, what maintains the equality of investment and saving and allows for less-than-full employment equilibrium? Note that this is discussed on pages 6-7 of the book. [bunch of math plus explanation]

Foreign Currency Market Structure

Currencies, Capital Flows, and Crises: Chapter Three

27. Concerning foreign currency wholesalers, what are they willing to do on a continuous basis and what does that entail? What is their goal (i.e. how do they earn a profit) and upon what does this depend? [61 words]
28. What does foreign exchange retailing involve, what does that mean, and how do they generate income? [27 words]
29. What three groups are acting commercially in the foreign exchange market? [6 words]
30. Those wholesaling face a more complicated world. How do they earn their income and what does this mean they must do? What makes this not so simple? [85 words]
31. Which level of foreign currency activity (commercial, retail, or wholesale) essentially creates the demand for currency (while the other two accommodate)? Explain how the three roles interrelate. [26 words]

PowerPoint: Psychology

Expectations and Decision Making

Currencies, Capital Flows, and Crises: Chapter Three

32. What can be said given that portfolio capital flows dominate the foreign exchange market (regarding expectations and outcomes)? This is not true under rational expectations because agents are assumed to be forecasting an event that is what? [19 words]
33. List and explain the five stages of decision making.-[81 words]
34. List and explain the three heuristics (not the biases!). [126 words without examples]
35. What are the forecast-construction biases introduced by each of the three heuristics with respect to forecasting exchange rate movements (not the definitions!)? [62 words]
36. What is true of probability judgements regarding that to which they are attached and their nature? What is true of information in this context? [48 words]
37. Agents obviously prefer to claim credit and avoid blame. How does this create an incentive to follow the crowd? [chart with a brief statement regarding which row is preferred and why]
38. List and explain Keynes' five observations regarding the workings of asset markets (uncertainty, low confidence, convention, quick results, and animal spirits). [240 words]
39. Explain how volatility is created by uncertainty, availability, representativeness, anchoring, the desire for quick results, animal spirits, and convention. [151 words]
40. Explain how bandwagons are created by availability, anchoring, representativeness, increasing confidence /forecast substantiation, and credit/blame issues. [162 words]

Khan, Habib Hussain, et al. "Heuristics and stock buying decision: Evidence from Malaysian and Pakistani stock markets." Borsa Istanbul Review (2017).

You can skip to the conclusion (it starts with a summary of the paper).

http://personal.tcu.edu/jharvey/40223/Heuristics_and_Stock_Buying_Decision.pdf

41. Why investors hold a losing stock too long? [14 words]

42. Why might an investor who is exposed to the representativeness bias be more likely to buy a wrong stock for their portfolio? [28 words]
43. The authors argue that investors tend to think that firms who advertise the most heavily are also the best. To which heuristic do they attribute this? Briefly explain what you think must be going on in such instances. [27 words]

Exchange Rates and Trade Imbalances

Currencies, Capital Flows, and Crises: Chapter Four

44. In what way does the exchange rate play a role similar to that outlined for interest rates (from the Neoclassical perspective) in chapter one? [48 words]

Lecture

45. Be able to manipulate the exchange rate graph (be sure you can label the actual exchange rate, the balanced-trade exchange rate, imports, exports, capital inflows, capital outflows, the trade balance, and the capital account balance). [whatever!]

FYI, Chapter 4 in the book, “Leakages, injections, exchange rates, and trade (im)balances,” explains these graphs in detail.

Also, examples of each of the four situations can be found here:
http://personal.tcu.edu/jharvey/40223/FX_Graph_Examples.pdf

*****probably to about here for exam one*****

PowerPoint: Kingston U Presentation v2

Harvey, John T. “Exchange Rates and the Balance of Payments: Reconciling an Inconsistency.” *Journal of Post Keynesian Economics* (forthcoming).

<http://personal.tcu.edu/jharvey/40223/ExchangeRatesandtheBalanceofPayments.pdf>

just pages 2-8

46. Equation (1) is $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$. Please define each variable in the context of Keynes’ original conception (i.e., not with the revisions necessary for it to make sense in a currency market). [33 words]
47. Equation (1) is $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$. What alternate definitions are necessary for q_{f} , c_{f} , and l_{f} in order for it to make sense for a currency market? Include the reference to the world reserve currency. [68 words]
48. Assuming an equation (1) $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$ for a variety of currencies, what must be true in equilibrium? [6 words]

49. There exists a hierarchy of currencies in the real world in the sense that some currencies are more attractive to hold than others. For example, even if you don't want to buy an American good, service, or financial asset, the US dollar is quite useful. On the other hand, the Dominican peso isn't terribly helpful outside of the Dominican Republic. What does this imply for nations whose currencies are at the bottom of the international hierarchy of monies (in terms of equation (1) $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$) and why could this be a problem? [61 words]
50. In terms of equation (1) $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$ what can you say about the movement of financial capital among the most advanced industrial nations (in terms of which variables would and would not make much difference)? [34 words]
51. Given an expected return equation for more than one currency, for example like (1) $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$ and (1') $r_{\text{s}} = q_{\text{s}} - c_{\text{s}} + l_{\text{s}}$, what variable must be added to make the system complete (note that these aren't the same equation numbers as in the original article—well, that's not quite right, but I'll explain what I mean in class)? You may add it to either equation so long as you define it accordingly. Also please define it in terms of the spot and expected prices. [34 words]
52. An increase in $(q_{\text{s}} - q_{\text{f}}) - (c_{\text{s}} - c_{\text{f}}) + (l_{\text{s}} - l_{\text{f}})$ will lead to what (note that the goal of this question is to prove that you understand how the equations explain exchange rate movements)? [11 words]
53. In an endogenous money world with central bank interest-rate targeting, which variable in (1) $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$ is unlikely to change (despite what one may be tempted to argue in the face of net capital flows)? [1 word]
54. In terms of the complete Post Keynesian model (the one based on $r_{\text{f}} = q_{\text{f}} - c_{\text{f}} + l_{\text{f}}$), generally speaking which variable is it that adjusts to create the new equilibrium? [3 words]
55. There is no assumption that we would actually ever reach $r_{\text{f}} = r_{\text{s}} = r_{\text{e}} = r_{\text{p}}$. Briefly, why is that (and what is not the reason)? [23 words]
56. Recalling the reason why there is no assumption that we would actually ever reach $r_{\text{f}} = r_{\text{s}} = r_{\text{e}} = r_{\text{p}}$, the article argues that this does not, at least in terms of the paper's thesis, change anything significant in the theory. However, it serves as an important reminder the objects of our study are not what, but are what? [36 words]

Open Economy Z-D Diagram

Currencies, Capital Flows, and Crises: Chapter Five

57. The D curve's slope is a result of what and relies on what assumption? [35 words]
58. What determines the intercept of the D curve (what it was in the *General Theory*)? [8 words]
59. The Z curve shows the revenue that firms must what? [19 words]
60. Why does the Z curve get steeper? Be sure to explain in terms of sales and the payroll as well as marginal returns. [55 words]
61. What are the conclusions drawn from the equations used to derive the BTFX curve and how do they affect the latter's slope? [73 words]
62. What must be true when BTFX is flatter? [20 words]

63. Explain how the demand for money can be broken into two distinct parts. [equation plus 55 words]
64. On the FXM curve, what forces are assumed to be driving net capital inflows (show by equation)? [equation]

Lecture

The following three answers are available at:

http://personal.tcu.edu/jharvey/40223/ZD_Upward_Shift_D.pdf

http://personal.tcu.edu/jharvey/40223/ZD_Contractionary_Monetary.pdf

http://personal.tcu.edu/jharvey/40223/ZD_Change_Expected_Currency.pdf

Because of the above links I don't check these on study question lists.

65. Show the effect of a rise in investment or a fiscal stimulus on the open economy Z-D diagram. [graph plus schematic]
66. Show the effect of a rise in interest rates on the Post Keynesian open economy Z-D diagram. [graph plus schematic]
67. Show the effect of a fall in the expected value of the dollar in the Post Keynesian open economy Z-D diagram. [graph plus schematic]

The Mental Model

Currencies, Capital Flows, and Crises: Chapter Five

68. Explain the concept of medium-term expectations, including how they affect the significance of events (mention all three types of values). [97 words]
69. Why are agents not as capricious as they could be in deciding what is important in exchange rate determination and what does their worldview recognize? [49 words]
70. What do the “indicators” on the Mental Model diagram represent? [22 words]
71. What four Mental Model variables have historically been most important to agents (please list in order)? [6 words]

Lecture

72. Draw the complete Mental Model diagram as shown in the reading, but you may omit “desire to cash in FX” and “forecast confidence.” [schematic]

Financial Crises

Currencies, Capital Flows, and Crises: Chapter Five

73. Currency-price divergence occurs when the actual exchange rate is pulled away from the level consistent with the market's mental-model forecast (i.e., away from where agents' forecasts say it should be). What is it that can pull it away and when it takes over what two factors can add fuel to the fire? With respect to how it manifests itself in a fixed exchange rate regime, what is one of the central premises and what may it cause speculators to do? [83 words]
74. In the context of currency-price divergence, what do Post Keynesian economists view as a common candidate for dramatic events that may trigger bandwagon-dominated runs?

75. Financial-returns divergence occurs when the rates of profit implied by financial asset price changes exceed those the actual asset issuers are generating. What is the implication for crises about the behavior of financial vs. real returns (with respect to what the business cycle will cause; you don't need the stuff in parentheses)? As expected physical and financial returns diverge, what may exacerbate the situation? [51 words]
76. Financial fragility results when economic agents take on debt to the point that they could quickly become insolvent given even a moderate disruption of their cash flow. Inevitably, given the precarious position in which firms, consumers, and banks have placed themselves, defaults occur. For what three reasons? [53 words]

*****probably to about here for exam two*****

Applying the Model to History

PowerPoint: History of the Dollar

Currencies, Capital Flows, and Crises: Chapter Six

see also http://personal.tcu.edu/jharvey/40223/Six_Stages_of_the_Dollar.pdf

and <http://personal.tcu.edu/jharvey/40223/FinancialCrisesSummary.pdf>

I don't bother to check these study questions since the answer is available at the above link.

77. During Bretton Woods Collapse and Adjustment (1970-79), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 4 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!). [79 words]
78. During Dollar Run Up (1980-February 1985), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 5 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!). [100 words]
79. During Dollar Reversal (March 1985-April 1995), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 5 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!). [75 words]

80. During the Last Days of the Mark (1995-1998), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate—can't quite do it on one, but you'll see)? How did the U.S. trade balance change? Note that there will be 3 mental model factors and 3 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!). [51 words]
81. During the Euro Decline (1999-2001), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 4 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!). [59 words]
82. During the Euro Recovery (2001-2007 or 8), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 4 mental model factors and 3 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!). [62 words]

PowerPoint: Collapse of the Dollar 2001 2008

Harvey JT. "Currency market participants' mental model and the collapse of the dollar: 2001-2008." *Journal of Economic Issues*. 2009 Dec 1;43(4):931-49.

http://personal.tcu.edu/jharvey/40223/Collapse_of_the_Dollar_2001_to_2008.pdf

83. According to Oberlechner and Hocking, about what do agents care more (actually, most, though this is not discussed in the Harvey article) in terms of the news they use in their forecasts and why is that so? [32 words]
84. According to Oberlechner and Hocking, what is the primary source of dealers information and the primary source of their primary source? What has been the consequence of that(both in terms of what financial markets may be about and how rumors are affected as they cycle through the loop) ? [57 words]
85. What were the most common explicit responses when agents were asked directly the metaphor they used to understand currency markets? What were they implicitly? How do Oberlechner and Hocking distinguish between the explicit and implicit metaphors (in terms of of what they may be indicative)? [64 words]

PowerPoint: Exchange Rate Behavior During the Great Recession

Harvey JT. "Exchange Rate Behavior During the Great Recession." *Journal of Economic Issues*. 2012 Jun 1;46(2):313-22.

http://personal.tcu.edu/jharvey/40223/Exchange_Rate_Behavior_Great_Recession.pdf

86. According to Harvey, if trade balances drove currency prices then the dollar should have done what since early 1991? [two words]
87. What often serves as an anchor to overall movements and a major focus for the formation of medium-term expectations? [3 words]
88. What are the names of the two periods over which the dollar appreciated despite the financial crisis? [6 words]

PowerPoint: Recent History of the Dollar 2011 2018

PowerPoint: The Mexican and Asian Financial Crises

89. Give the following for the Mexican Financial Crisis: Boom Trigger, Bust Trigger, Tension Points (including Currency Price Divergence, Financial Returns, and Financial Fragility), and Consequences. FYI, there will be two items under Financial Returns, three under Currency Price Divergence, two under Financial Fragility, and three under Consequences.
90. Give the following for the Asian Financial Crisis: Boom Trigger, Bust Trigger, Tension Points (including Currency Price Divergence, Financial Returns, and Financial Fragility), and Consequences. FYI, there will be three items under Financial Returns, three under Currency Price Divergence, two under Financial Fragility, and three under Consequences.

PowerPoint: Greek Crisis

Harvey: *Five Reasons Why The Greeks Were Right*

<http://www.forbes.com/sites/johntharvey/2015/07/07/five-reasons-greeks-were-right/>

91. List but do not explain the five reasons Harvey says the Greeks were right to reject the bailout proposal. [59 words]
92. With respect to Harvey's point that the Greek crisis is a function of how the Eurozone is organized, list but do not explain the three interrelated factors. What self-destructive trend do they create (just show the schematic)? [41 words]
93. Harvey says that, ironically, austerity is a "solution" given how the euro zone is set up. How does he say would it tend to reduce their debt? Why is that bad in terms of bias it creates and what does Europe truly need? [92 words]

Policy

Currencies, Capital Flows, and Crises: Chapter Seven

94. In general, what is it that Post Keynesians want (and what is also desirable)? [14 words]
95. Briefly explain what it means to say that currency prices are mis-determined because they are driven by short-term time horizons instead of long. [88 words; this will take some hard work!]

96. Briefly explain what means to say that currency price volatility reduces the expectation of profit from investment and, therefore, the level of aggregate demand. [34 words]
97. Briefly explain what it means to say that currency price mis-determination and volatility reduce the level of world trade. [33 words]
98. Briefly explain what it means to say that currency markets contribute to developing countries' woes. [44 words]
99. Where does the core of any successful international monetary reform lie? [2 words]
100. What are the central features of a Chilean-style policy and how did it properly discriminate between types of capital flows? [53 words]

PowerPoint: Uncovered Interest Rate Parity

Currencies, Capital Flows, and Crises: Chapter Five (right before the financial crisis stuff)

101. Give the uncovered interest rate parity equation. [equation]
102. What is the most common Neoclassical suggestion as to why empirical evidence is not supportive of uncovered interest rate parity? In that event, what would be true even in equilibrium? [54 words]
103. For what two reasons does the otherwise reasonable Neoclassical argument run into trouble? [40 words]
104. Contrary to the predictions of the Neoclassical uncovered interest rate parity theory, it is not at all uncommon for higher interest rates in one country corresponding to what? [16 words]
105. What does Harvey say the problem with the Neoclassical version of interest rate parity is? [9 words]
106. Time to prove that you understand Harvey's version of interest rate parity! Say we start with $r_s = 5\%$, $r_\pounds = 5\%$, $\pounds/\$ = 0.5$, and $(\$/\pounds)^e = 2$. This yields equilibrium even under the strict Neoclassical version. Why is it, however, that in the Post Keynesian version, it is entirely possible for the Federal Reserve to raise r_s to 6% and yet there be no impact on any of the other variables? Be sure to mention net financial capital flows in your answer. [48 words]