Policy Effects with Floating Exchange Rates

Section 2

1a. sell domestic currency
 b. sell foreign currency
 c. decrease
 d. increase
 e. sterilization
 f. stay the same
 g. stay the same

Fixed Exchange Rates

Section 3
1a. interest rates
 b. spot exchange rate
 c. intervene

Section 4
1a. buy
 b. sell
 c. sell RMB, buy dollars
 d. buy yuan

Section 5
1a. official reserve transactions
 b. BoP deficit
 c. BoP surplus
 d. BoP deficit
 e. BoP surplus
 f. BoP deficit

Section 6
1a. black markets
 b. do nothing
 c. not credible

Fixed versus Floating Exchange Rates

Section 1

1a. fixed and floating
 b. volatility
 c. risk
 d. inflation
 e. autonomy

Section 2

1a. volatility
 b. decrease
 c. decrease
 d. increase
 e. increase

2a. US products imported into Europe will fall in price in euro terms because of a dollar depreciation and euro appreciation. That will make it harder for European businesses to compete because US products will gain a price advantage. The same is true for European businesses who export products to the US, and whose products will rise in price in dollar terms due to the euro appreciation.

2b. European businesses who export products to the US will see their product prices rise in price in dollar terms due to the euro appreciation. That will make it harder for European businesses to compete because US products will gain a price advantage.

2c. European investors holding dollar assets will see the value of those assets fall in euro terms due to the dollar depreciation. Thus their rate of return on US investments will fall.

Section 3

1a. price level or inflation
 b. monetary policy
 c. the reserve country
 d. relatively low
 e. Bretton Woods, or gold exchange standard

Section 4

1a. autonomy, or independence
 b. autonomy, or independence
 c. floating
 d. fixed
 e. floating

Section 5

1a. fixed
 b. floating
 c. fixed
 d. fixed
 e. fixed