

Problem Set 4
Fixed Exchange Rates

1. What is the official exchange rate regime in your country?
2. Using data from the IFS (or any other reliable source) for the most recent year answer the following questions:
 - a) What is the ratio of foreign exchange reserves to the monetary base? Could your country withstand a massive attack on its currency?
 - b) How much (as a percentage of GDP) did the general government borrow from the central bank? How much from the banking system?
 - c) How much seignorage (as a percentage of GDP) did the central bank receive?
 - d) Calculate the growth rate of $M2$. What was the contribution of domestic and foreign assets? How do you interpret your findings?
3. A recent study found that the volatility of foreign exchange reserves is quite high in countries that claim to have floating regimes. Why is this result interesting?
4. What is the correlation between the monetary base and foreign exchange reserves under a currency board arrangement?