

Chapter 22 Money Organizations and Institutions

Question 22.4

The openness and transparency of the Fund has increased significantly in the past decade, particularly in response to external criticism of its conduct. On the IMF website, you can find some frequently asked questions to the fund, of which many relate to these criticisms. Moreover, you can find a factsheet on economic crises and the Fund.

22.4A How does the IMF help to resolve economic crises?

22.4B What is the moral hazard problem associated with IMF lending?

22.4C Does the Fund impose austerity on countries in difficulties?

22.4D Graph the development of IMF credit outstanding through time. What picture emerges?
Which countries are currently the biggest lenders of the Fund?

The governance structure of the IMF is under pressure due to the rising economic importance of Asian countries.

22.4E Find out whether the same holds true for the World Bank by visiting its website and investigate the voting power of member states. What is your conclusion?

Question 22.5

In its Economic Issues No. 13, the IMF discusses the merits of fixed or flexible exchange rates. The title of the paper is: Fixed or Flexible? Getting the Exchange Rate Right in the 1990s. You can find this paper on the IMF website.

22.5A Which exchange rate regime (fixed, flexible) is considered superior in terms of economic performance (growth, inflation rate)?

22.5B Which regime is more crisis prone in practice?

22.5C Why should small and open economies adopt fixed exchange rates?

22.5D What is the trade-off between credibility and flexibility and how is it related to exchange rate regimes?

22.5E Which considerations determine the type of exchange rate peg a country might choose?

22.5F Why does sterilization only work in the short run?

22.5G What is the importance of banking systems for exchange rate regimes?

Question 22.6

The accompanying **Excel file question 22-06** has data on foreign exchange reserves for a group of countries. One of the current policy issues is the build-up of foreign exchange reserves by central banks in developing countries.

22.6A When did this build-up start in earnest for the Asian countries? And when for Saudi Arabia?
Can you explain why?

These huge foreign exchange reserves are mostly held in US dollars, and thus represent claims on US production.

22.6B What would happen to the value of the dollar if central banks stopped purchasing these dollars?

22.6C What would happen to the value of their reserve holdings?

22.6D What interest does the IMF have in this issue? Why is it worried about this development?

22.6E Some economists have described the current financial system as a “new Bretton-Woods”.
Can you explain why?