**International Financial Markets**

**Tutorial**

**Home Work 3**

**International Banking and Financial Infrastructure**

Following are 20 questions, each worth five points. Indicate the answers you think most correct.

1) Which of the following is NOT an electronic payment system?

A) Fedwire

B) CHAPS

C) Franc2

D) BOJ-NET

2) Which of the following is not risk inherent in global payment systems?

A) credit risk

B) system risk

C) liquidity risk

D) default risk

3) Which of the following would be effective at reducing the amount of Herstatt risk in a payment system?

A) having managers double check transactions entered by employees at the end of each day

B) limiting the countries allowed to use the payment system

C) limiting the firms allowed to use the payment system through credit checks

D) having the system open 24-7-365

4) Why would a country's currency come under a speculative attack?

A) A country raises its interest rate too high attracting currency investors.

B) A country announces a poor monetary policy decision.

C) A country has nearly exhausted its foreign currency reserves.

D) A country changes its monetary regime unexpectedly.

5) A contagion effect is

A) when speculators perceive that a problem in one nation is likely to repeat itself in another.

B) when policymakers in one country mimic the actions of another country.

C) when two countries with fixed exchange rates conduct joint monetary policy.

D) when a country runs out of foreign exchange reserves.

6) In regulating banks, most goals are satisfied by the implementation of

A) economic fundamentals.

B) capital requirements.

C) reserve requirements.

D) risk limitations.

7) The administrative body overseeing capital requirement regulation is

A) the Bank for International Settlements in Basel, Switzerland.

B) the Bank for International Agreements in New York, NY.

C) the World Bank in Washington, DC.

D) the Bank for International Negotiations in Geneva, Switzerland.

8) What is a fiscal agent?

A) a bank that issues, services, and redeems government debt

B) an organization that oversees fiscal spending in an economy

C) a bank that represents a government in foreign trading transactions

D) an organization set up by a government to secure financing for fiscal transactions

9) Which of the following is a central bank asset?

A) government deposits

B) currency notes

C) bank reserve deposits

D) domestic securities and bills

10) The World Bank primarily issues loans in order to

A) promote long-term development and growth in a developing nation.

B) ensure long term stability within a banking system.

C) be the global lender of the last resort in the case of financial crisis.

D) maintain the IMF conditionality rules.

**The International Financial Architecture and Emerging Economies**

1) Asymmetric information is a form of

A) market imperfection.

B) regulatory arbitrage.

C) capital market liberalization.

D) financial sector deregulation.

2) Problems resulting from market imperfections include

A) adverse selection.

B) herding behavior.

C) moral hazard.

D) all of the above.

3) When firms choose to produce aboard instead of domestically, it may be the result of

A) herding behavior.

B) regulatory arbitrage.

C) moral hazard.

D) IMF intervention.

4) Portfolio capital flows tend to be

A) part of an overall, longer term investment strategy.

B) shorter term in nature.

C) involved in acquiring ownership positions in excess of 10%.

D) detrimental to the development of a nation's financial sector.

5) The theory that every nation should choose an exchange rate regime that is either completely flexible or completely fixed is

A) known as dollarization.

B) now the standard for economic thought.

C) no longer recommended by policy makers.

D) known as the corners hypothesis.

6) One clear benefit of dollarization is

A) the convenience of using the U.S. dollar for all transactions

B) the elimination of treasury responsibilities.

C) the reassurance that monetary policy is managed by experts.

D). the reduction of country risk and risk premiums on interest rates.

7) One clear cost of dollarization is

A) the price of importing U.S. dollars to the country.

B) the loss of monetary policy independence.

C) the inability of domestic banks to set their own interest rate structures.

D) the loss of domestic financial architecture.

8) The trilemma refers to the idea that

A) policy makers may choose two but not three of a set of policy options.

B) discretionary monetary policy, fixed exchange rates, and liberalized capital markets cannot happen simultaneously.

C) if policy makers choose to have liberalized capital markets, they can either have discretionary monetary policy or fixed exchange rates.

D) all of the above

9) If policy makers try to implement a flexible exchange rate, capital market liberalization, and discretionary monetary policy, they may create a financial crisis. This problem is known as the

A) trilemma.

B) risk triangle.

C) sterilization risk.

D) financial deconstruction matrix.

10) One economic variable that remains elusive is

A) global debt servicing ratios.

B) a financial crisis indicator.

C) the actual amount of debt owned by private banks.

D) the credit ratings of individual nations.