ECON 425
Topics in Monetary Economics:
The International Monetary System
from the Gold Standard to Globalization
Homework Assignment 2

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Due in class on Wednesday, April 17, 2019

This homework assignment requires you to answer questions of the type that you may face in the exams (of course, for model-based questions like number 8, the text of an exam would include more information).

Here are the questions:

1. Using the logic of arbitrage between metals, explain how Sir Isaac Newton's pricing mistake (setting too high a silver price for the gold guinea at the British mint, or too low a price of silver relative to its international market price) caused silver to flow out of Britain after 1717, leading Britain to adopt a Gold Standard regime in 1819.

2. Explain how France's commitment to a bimetallic system sustained circulation of both metals internationally as long as changes in metal supplies and relative prices were of limited size.

3. Summarize and explain the argument that the international adoption of the Gold Standard between 1870 and 1913 was the outcome of accident, path dependence, and network externalities.

4. Briefly discuss John Stuart Mill's (1865) explanation of price level dynamics under the pre-war Gold Standard and the deflation that characterized much of that period.

5. Explain David Hume's (1752) price-specie flow model of the Gold Standard (without and with international capital flows).

6. Summarize the discipline view of the Gold Standard.

7. Summarize the target zone view of the Gold Standard and the role of credibility.

8. Using the framework in the Topic 2 Supplement slides, explain how the existence of a credible target zone stabilizes exchange rate dynamics inside the band.

9. Explain the countercyclicality of international capital flows in the pre-war Gold Standard and the procyclicality after World War I. Explain how countercyclical capital flows contributed to the stability of the system before 1913, and how procyclical flows instead contributed to instability in the 1920s.