

ECON 425  
Topics in Monetary Economics:  
The International Monetary System  
from the Gold Standard to Globalization  
Homework Assignment 3

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Due in class on Wednesday, May 1, 2019

Answer the following questions:

1. Briefly summarize the experiences of major countries returning to the Gold Standard after World War I.
2. Why did the interwar Gold Standard collapse?
3. Using equation (1) at page 6 of the Topic 3—The Great Depression slides, summarize Ben Bernanke's discussion of how the interwar Gold Standard induced widespread monetary contraction and contributed to the Great Depression.
4. Explain the role of exchange rate policy choices in the Great Depression experiences of countries that made different choices.
5. Summarize the discussion of aggregate supply-side determinants of the Great Depression in Ben Bernanke's (1995) *Journal of Money, Credit, and Banking* article.
6. Summarize the key assumptions of the model of monetary policy interactions under the interwar Gold Standard developed in Eichengreen's (1984) *Explorations in Economic History* (*EEH*) article. Explain intuitively the importance of these assumptions for the results, and how the results help us understand observed dynamics during the interwar years.

7. Using Eichengreen's (1984, *EEH*) model and following steps similar to those for the home central bank, prove that the foreign central bank faces a tradeoff between its policy objectives, i.e., prove that  $dG^*/dR^* > 0$  and  $dP/dR^* < 0$ .
8. Consider page 23 in the slides on Eichengreen's (1984, *EEH*) model. Prove equations (18) and (19). (Note the hint at the top of the page.)
9. Prove also that  $dG^*/dR < 0$  and  $dP^*/dR < 0$ . (recall that  $P^* = P$  in this model).
10. Briefly explain Figure 2 in the slides on Eichengreen's (1984, *EEH*) model and use the figure to explain how non-cooperative central bank behavior under the Gold Standard leads to the Nash equilibrium (point N) starting from any initial interest rate choice by the home central bank. Make sure you explain the successive rounds of best responses by the central banks to their counterpart's behavior leading to this point.
11. Based on the same Figure 2, explain the differences between non-cooperative central bank behavior, a leadership regime, and cooperation. With reference to historical examples, use the model to explain how a competitive "scramble for gold" imparted a contractionary bias to monetary policy under the interwar Gold Standard, and explain the role that this had in the Great Depression.
12. Explain how the Bretton Woods system was a compromise between the White (U.S.) and Keynes (British) plans.