1. In the sixties, Europe needed dollars to use as the main settlement currency for international transactions. What was the effect on the US balance of payments and why was this called "the confidence problem"?

2. What is the difference between the EMS and the ERM?

3. Why was there many realignments in the ERM in the early 80ies and much fewer later on?

4. What are the two main fiscal criteria that must be met for a country to join EMU.

5. The subsidies to agriculture were distributed under the auspices of the Guarantee Fund (compulsory expenditures in the budget) and of the Guidance Fund (non-compulsory expenditures in the budget): what was the goal and the impact of the Guidance fund on European agriculture.
II. **Theory Questions**  (4 in the exam)

1. In the Bretton-Woods framework, France was experiencing higher rates of inflation than the US. Underline the correct answer:

i. France experienced (vis a vis US) a real appreciation  **or**  a real depreciation

ii. resulting in an increase in French international competitiveness  **or**  a decrease in French international competitiveness

2. During the currency crises of the early 90ies the French Franc fell under speculative attacks. In order to support the Franc and to keep it inside of its +/- 2.25% band, the Banque de France and the Bundesbank carried out concerted intervention.

   The Banque de France **sold DM**  **or**  **bought DM**
   in order to weaken the Franc  **or**  the DM

   The Bundesbank **sold Francs**  **or**  **bought Francs**
   in order to strengthen the Franc  **or**  the DM

3. Under a fixed exchange arrangement if a country experiences a higher rate of inflation than its trade partner

   it will experience **a real appreciation**  **or**  **a real depreciation**

   its international competitiveness will **increase**  **or**  **decrease**

III. **Essay**  15 lines

What were the main pitfalls of the Bretton Woods system that had to be avoided in the design of the ERM? 10 to 15 lines

   Or

The problems with the Stability and Growth Pact