

- ____ 1. The exchange rate system in which a country allows the value of the currency to be determined by the market forces of supply and demand is known as a
- Currency board
 - Floating exchange rate**
 - Target zone
 - Pegged exchange rate system
- ____ 2. Which of the following would NOT be a major component of a country's official reserves?
- foreign exchange
 - IMF-related reserve assets
 - gold
 - government bonds
- I did not mark any answer wrong. I made the mistake of taking this question from a Test Bank supplied by the publisher, where the intended answer was d. But many of you, correctly, had in mind that central banks hold foreign government bonds as reserves.*
- ____ 3. When a central bank buys foreign currency, its international reserves _____.
- decrease
 - increase**
 - remain unchanged
 - are difficult to determine
- ____ 4. If a country's currency is in a target zone, as the currency depreciates and nears the limits of the band, the central bank will:
- buy foreign currency, increasing its official reserves
 - sell foreign currency, increasing its official reserves
 - sell foreign currency, reducing its official reserves**
 - buy foreign currency, reducing its official reserves
- ____ 5. France, Germany, and Italy are members of:
- a currency board
 - the CFA franc zone
 - a crawling peg
 - a currency union**
- ____ 6. Which of these has an exchange rate that is fixed to the US dollar?
- Hong Kong**
 - Japan
 - China
 - Australia

- ___7. Unsterilized intervention:
- changes the money supply and the central bank's official reserves***
 - does not change the money supply but changes the central bank's official reserves
 - does not change the money supply or the central bank's official reserves
 - changes the money supply but does not change the central bank's official reserves
- ___8. If a central bank intervenes in the foreign exchange market by selling official reserves
- the country runs a current account deficit
 - the country runs a current account surplus
 - the country runs a balance of payments deficit***
 - the country runs a balance of payments surplus
- ___9. An exchange rate system in which the currency is allowed to depreciate at a rate determined and controlled by the government or central bank is called
- a crawling peg***
 - a crawling bug
 - a flying bug
 - a flying peg