Problem Set

This problem set is due (in hard copy) during section (GSI: Yong Paik) on Monday, March 2\textsuperscript{nd}. Late problem sets will not be accepted. While working on the problem set, you are free to consult any notes, books, or articles that you like. But your answers should be solely your own work. You should NOT work with others on this problem set. Please type/wordprocess your answers.

Part 1

Identify each of the following terms or concepts and explain its relevance to the modern world economy. Each of your answers should not exceed 200 words. 10 points each.

1. Convergence club
2. Price-specie flow mechanism
3. Policy Trilemma
4. Hyperinflation

Part 2

Answer BOTH of the following two essay questions. Please limit your answer to each question to 600 words. 30 points each.

1. Between 1880 and 1914, the U.S., Britain, Germany, and many other countries successfully fixed their exchange rates while allowing unregulated international capital flows. What political and economic factors made this possible? Why were fixed exchange rates and capital mobility more difficult to reconcile after World War I? Is it likely to have a “gold standard” again in the future? If so, why? If not, why not?

2. It is often said that the stock market crash of October 1929 caused the Great Depression. Is this assessment correct or were there other factors that might have caused or deepened the crisis? Today, we face another economic crisis. Could it become another Great Depression? If so, why? If not, why not?