

Political Science 12: IR -- Seventh Lecture, Part 1



9

International Monetary Relations

International Monetary Policies

1. Money's Social Functions
2. Choice of Exchange Rate Regimes and Currency Policies
3. Exchange Rate Regimes and Currency Preferences
4. International Monetary Regimes, 1870–Present
5. Currency Collapse

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Money's Social Functions

- Social role of money
- Medium of exchange

Money's Social Functions

- Store of value
- Unit of account

Money's Social Functions

Money's stability, value, and role are affected by

- domestic interests
- the country's role in the global economy
- the country's interaction with international institutions

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Choice of Exchange Rate Regimes and Currency Policies

Exchange rate regimes

- Floating
- Pegged
- Replacing one currency with another

Choice of Exchange Rate Regimes and Currency Policies



Choice of Exchange Rate Regimes and Currency Policies

Currency values respond to several conditions:

- National interest rates
- Current account
- Prices of major exports
- Instability

Choice of Exchange Rate Regimes and Currency Policies

Maintaining the value of currency
through state intervention

Choice of Exchange Rate Regimes and Currency Policies

Value of the currency in the short term

- Undervalued currencies
- Overvalued currencies

Variety of Exchange Rate Regimes



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Exchange Rate Regimes and Currency Preferences

Who favors floating rates?

Exchange Rate Regimes and Currency Preferences

Who favors *fixed* or *pegged* rates?

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International Monetary Regimes, 1870–Present

The classical gold standard,
1870–1914

International Monetary Regimes, 1870–Present

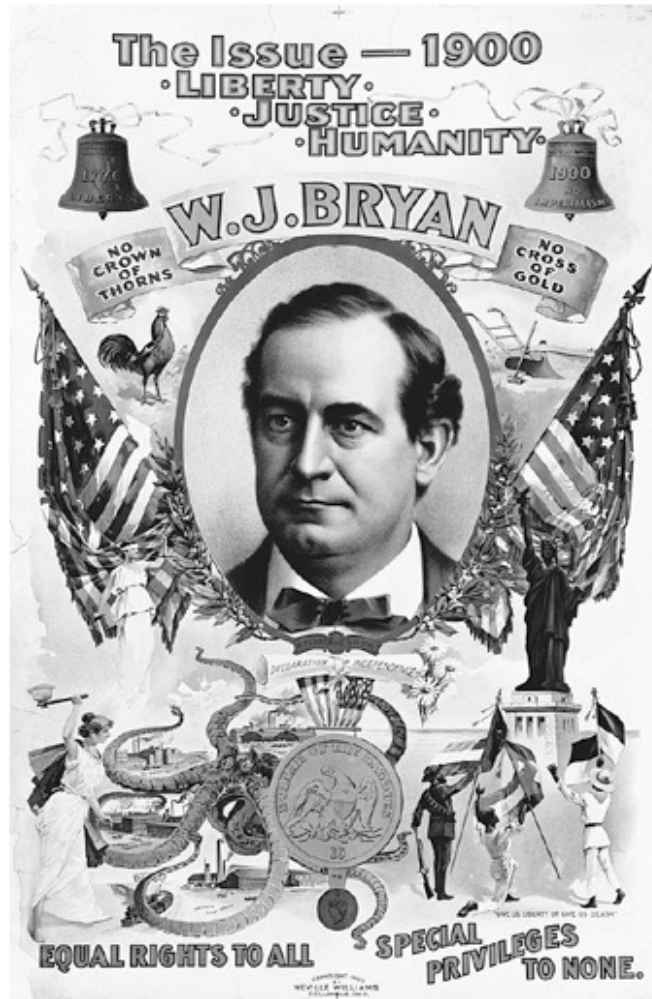
- Leading financial centers cooperated
- Burdens fell on the politically weak

The Gold Standard Controversy

In the 1890s, the United States was in recession.

Pullman railroad strike: workers strike over low wages and poor conditions

The Gold Standard Controversy



The Gold Standard Controversy

Bryan made a case for going off the gold standard in hard times.

The Gold Standard Controversy



International Monetary Regimes, 1870–Present

Floating rates, 1914–44

International Monetary Regimes, 1870–Present



International Monetary Regimes, 1870–Present

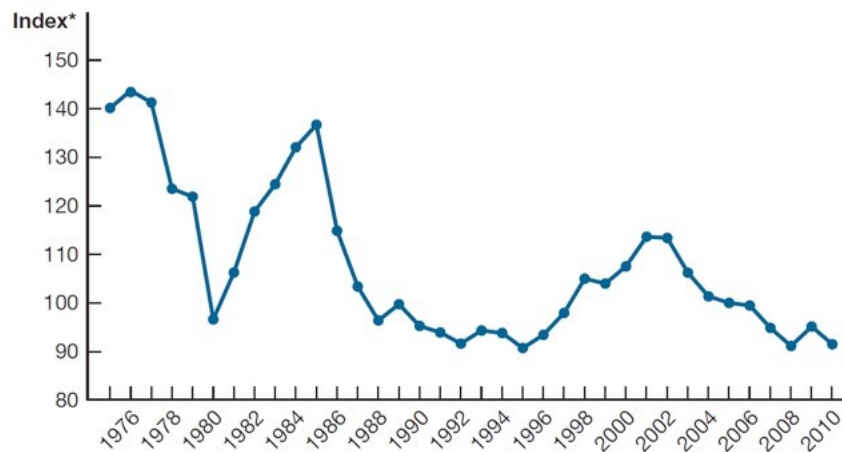
Bretton Woods, 1944–73

International Monetary Regimes, 1870–Present

Managed float: 1973–present

International Monetary Regimes, 1870–Present

Figure 9.1: The Value of the U.S. Dollar, 1975–2010



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Currency Collapse

- When commitments are no longer credible
- Patterns of crises

Currency Collapse

Domestic interests:

Who gains?

Who loses?

Currency Collapse

Speculative attacks on currencies have been more frequent in recent years.

Currency Collapse

Members of the
EMU, 2012



Currency Collapse



Currency Collapse

- International cooperation and currency crises
- Benefits
- Costs

Currency Collapse



Political Science 12: International Relations

