Political Science 12: IR -- Seventh Lecture, Part 1
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
International Monetary Policies

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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