

Short Answer Questions

Chapter 38.

1. What is a common currency area?
2. Consider at least two advantages and two disadvantages of a group of nations adopting a single currency.
3. To what extent is a single currency essential to the establishment of a single market?
4. Assess the costs and benefits to member nations of a significant weakening of the Euro on foreign currency markets. State clearly any assumptions that you make in your assessment.
5. Assume two countries, Country X and Country Y, are part of a common currency area. Analyse the effect of a shift in demand for the exports of Country X to Country Y on the price level and the level of economic growth in each country. You should use a diagram to help illustrate your answer.
6. Explain how the growth of the credit default swap market increased the risk of financial chaos rather than reduced risk as was originally suggested.
7. Explain why it is important that a country joining a single currency should be at a similar point in the economic cycle to existing member states.
8. What is the relevance of real wage flexibility to the long term success of a single currency area?
9. Explain why greater capital mobility would be able to cushion the effect of a short term economic shock.
10. Explain why higher levels of trade integration can improve the benefits of a single currency to member states.