

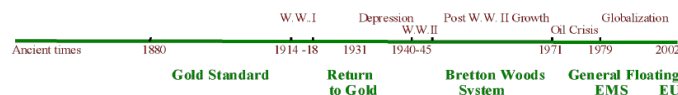
# History of the International Monetary System

## Time Line of International Financial Orders

### International Trade and Monetary Systems

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2015



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What are the lessons from the interwar period? Given what we know now, what should have been done differently? From a business perspective and with perfect hindsight, what do you think the U.S. Chamber of Commerce should have lobbied the U.S. government about?

Explain precisely how the gold standard dealt with the trilemma.

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Describe why Germany had such difficulty in making its reparations payments for it to be able to meet the obligations imposed on it at the Versailles Conference? What had to happen?

Was the gold standard responsible for the Great Depression?

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## The Gold Standard After WWI

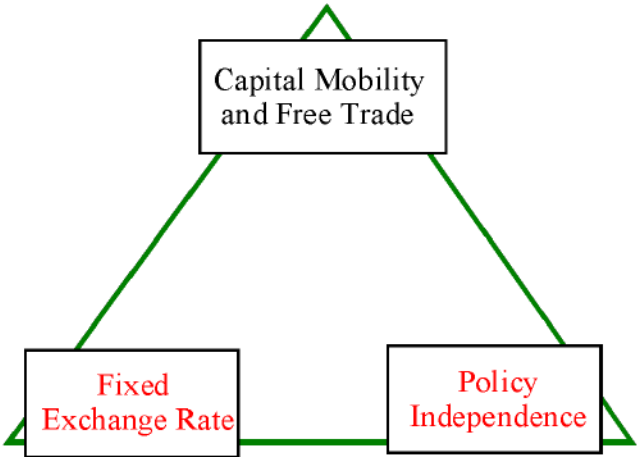
- ▶ Many economists blame the return to the gold standard for the perverse monetary policies that worsened the recession.
- ▶ They also blame the gold standard's rules of the game for quickly spreading the U.S. recession to the rest of the world.
- ▶ Indeed, the trilemma explains why a recession in one country would spread to others quickly.
- ▶ It may seem somewhat of a stretch to argue that the international financial order was the cause of the Depression and World War II.
- ▶ The Bretton Woods Conference in 1944 suggests that the leaders of the Allied nations had also concluded that the financial order was to blame.

## Reversing the Financial Chaos

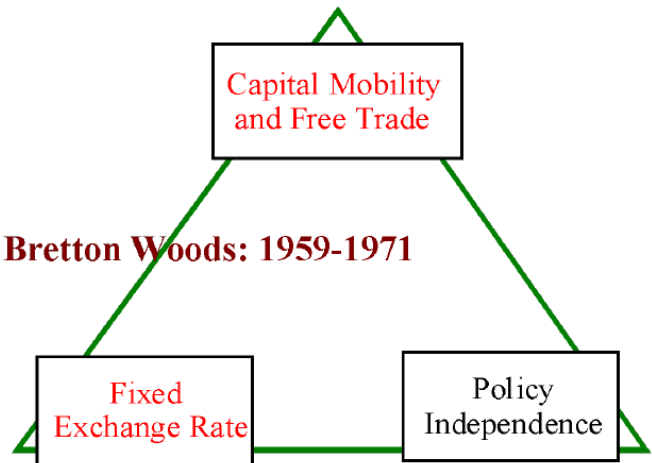
- ▶ After abandoning convertibility, many countries established what were referred to as exchange rate stabilization funds.
- ▶ Roosevelt pushed the International Trade Agreements Act through the Congress in 1934.
- ▶ The Roosevelt Administration also negotiated the Tripartite Agreement in 1936, which marked the definitive end to the gold standard.

## The Tripartite Agreement

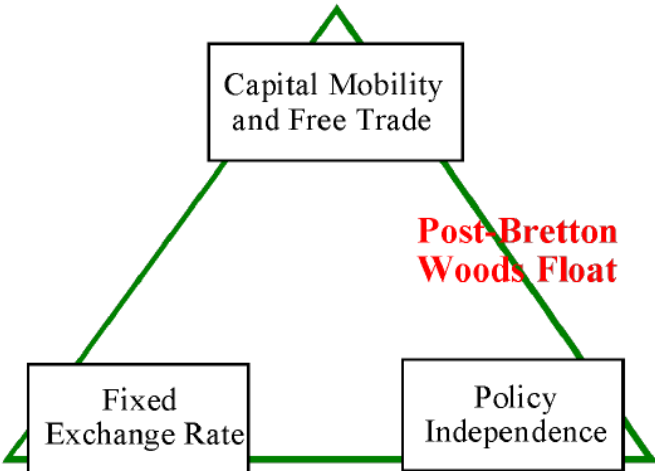
- ▶ Under the Tripartite Agreement, the United States, Great Britain, and France decided to fix exchange rates between their currencies.
- ▶ The Tripartite Agreement did not envision a return to the gold standard; rather, it prescribed that central banks intervene in the foreign exchange markets to keep exchange rates fixed at agreed-to levels.
- ▶ There is not much difference between an order that requires central bank intervention in the foreign exchange markets and the order of the Gold Standard, but the agreement permitted the fixed rates to be changed under extreme circumstances.



**Early Bretton Woods: 1945-1958**



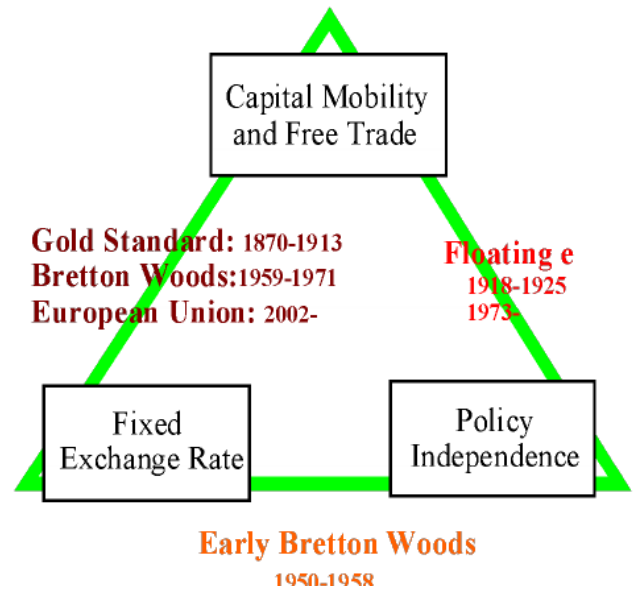
**Bretton Woods: 1959-1971**



**Post-Bretton Woods Float**

Why did the Bretton Woods system work reasonably well for a time but eventually collapse?

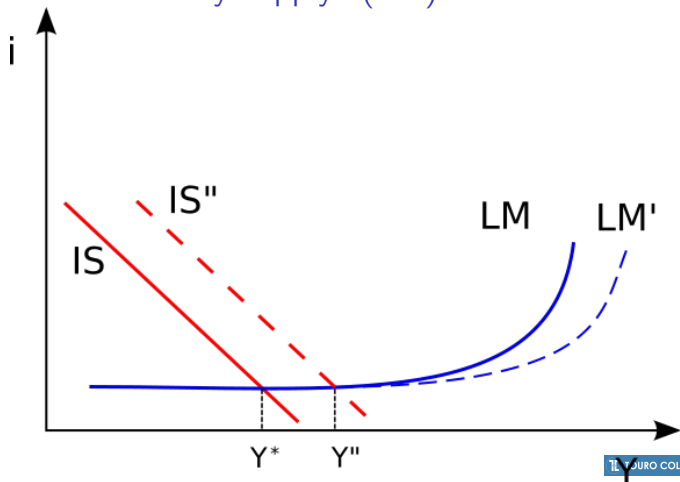
Why did the trilemma become a problem in the 1960s after causing little concern during the 1950s?



Why have so many emerging economies intentionally devalued their currencies to accumulate reserves?

What is the Keynesian liquidity trap. How does the existence of a liquidity trap limit policy makers' options for dealing with high unemployment?

The investment-savings (IS) and liquidity preference-money supply (LM) model



Why might Islamic finance be more appropriate for directing funding toward new entrepreneurs than the traditional fixed-interest loans given by banks in most countries of the world?