Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER –IV-EXAMINATION – SUMMER-2022

Subject Code: 4549241 **Date: 13-07-2022**
Subject Name: Geopolitical and World Economic Systems
Time: 10:30 AM TO 01:30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q. No.		Question Text and Description	Marks
Q.1		Explain The following terms. (a) Laissez-faire Capitalism. (b) Economic transition. (c) MERCOSUR (d) GCC (e) TRIPs (f) GATT (g) Global Value Chain	**14**
Q.2	**(a)**	Explain different types of capitalism.	**07**
	(b)	Resources ,Population , Industry & Finance are uneven globally.Explian citing few examples.	**07**
		OR	
	(b)	Which are the member states of EU. Explain the motives behind EU formation.	**07**
Q.3	**(a)**	Explain major agreements of WTO.	**07**
	(b)	Explain in brief evolution of International Monetary Systems.	**07**
		OR	
Q.3	**(a)**	Which are the Government Policy Instruments Intervention in FDI?	**07**
	(b)	Sustainable development : explain citing examples of countries actively working & progressing towards sustainable development.	**07**
Q.4	**(a)**	Write a note on Global Environmentalism – history and current trends.	**07**
	(b)	“Brain Drain”.is it case with only underdeveloped countries? Explain.	**07**
		OR	
Q.4	**(a)**	Write a note on Historical antecedents of Global Trading System.	**07**
	(b)	Balance of power. Myth or reality. Explain	**07**

Q.5 The Breakup of the Bretton Woods System, 1973

In July 1944, delegates from forty-five of the allied powers engaged in World War II met in Bretton Woods, New Hampshire, in the United States to plan for the economic institutions believed necessary to assist in the reconstruction, development, and growth of the postwar economy. Foremost on the delegates' minds was the instability of the international economic system after World War I, including the experiences of hyperinflation as in Germany in 1922–1923 and the worldwide depression of the 1930s. One element believed necessary to avoid repeating the mistakes of the past was to implement a system of fixed exchange rates. Not only could fixed exchange rates help prevent inflation, but they could also eliminate uncertainties in international transactions and thus serve to promote the expansion of international trade and investment. It was further hoped that economic interconnectedness would make it more difficult for nationalism to reassert itself.

The Bretton Woods system of exchange rates was set up as a gold exchange standard, a cross between a pure gold standard and a reserve currency standard. In a gold exchange standard, one country is singled out to be the reserve currency. In the Bretton Woods case, the currency was the U.S. dollar. The U.S. dollar was fixed to a weight in gold, originally set at $35 per ounce. The U.S. central bank agreed to exchange dollars for gold on demand, but only with foreign central banks. In a pure gold standard, the central bank would exchange gold for dollars with the general public as well. The non-reserve countries agreed to fix their currencies to the U.S. dollar or to gold. More accurately, countries agreed to establish a "par value" exchange rate to the dollar and to maintain the exchange to within a 1 percent band around that par value.

One of the problems that typically arises with a reserve currency standard is the persistence of balance of payments (BoP) deficits. BoP deficits require a country to sell its dollar reserves on the Forex market. When these deficits are recurring and large, a country will eventually run out of reserves. When that happens, it will no longer be able to defend its fixed currency value. The likely outcome would be a devaluation, an action that runs counter to the goals of the system, namely to maintain exchange rate stability and to ward off inflationary tendencies.

To provide a safety valve for countries that may face this predicament, the International Monetary Fund (IMF) was established to provide temporary loans to countries to help maintain their fixed exchange rates. Each member country was required to maintain a quota of reserves with the IMF that would then be available to lend to those countries experiencing balance of payments difficulties.

The Bretton Woods exchange rate system was an imperfect system that suffered under many strains during its history. Nonetheless, it did achieve fixed exchange rates among its members for almost thirty years.

Throughout the 1960s and early 1970s, there was excessive supply of U.S. dollars on Forex markets in exchange for other currencies. This put pressure on the U.S. dollar to depreciate and non-reserve currencies to appreciate. To maintain the fixed exchange rate, non-reserve countries were required to intervene on the private Forex. For example, the British central bank was required to run a balance of payments surplus, buy the excess dollars, and sell pounds on the private Forex market.

Indeed, U.S. inflation was rising, especially in the late 1960s. Federal government spending was rising quickly—first, to finance the Vietnam War, and second, to finance new social spending arising out of President Johnson's Great Society initiatives. Rather than increasing taxes to finance the added expenses, the United States resorted to expansionary monetary policy, effectively printing money to finance growing government budget deficits. This is also called "monetizing the debt."

The immediate financial impact of a rising U.S. money supply was lower U.S. interest rates, leading to extra demand for foreign currency by investors to take advantage of the higher relative rates of return outside the United States. The longer-term impact of a rising U.S. money supply was inflation. As U.S. prices rose, U.S. goods became relatively more expensive relative to foreign goods, also leading to extra demand for foreign currency.

During the 1960 and early 1970s the amount of U.S. dollar reserves held by non-reserve central banks grew significantly, which led to what became known as the Triffin dilemma (dollar overhang). Robert Triffin was a Belgian economist and Yale University professor who highlighted the problems related to dollar overhang.

By the spring of 1971, the imbalances in the system reached crisis proportions. In April 1971, the Bundesbank (Germany's central bank) purchased over $3 billion to maintain the fixed exchange rate. In early May, it bought over $2 billion in just two days to maintain the rate. Fearing inflation after such huge purchases, Germany decided to let its currency float to a new value, 8 percent higher than its previous fixed rate.

In the end, the Smithsonian Agreement extended the life of Bretton Woods for just over a year. By March 1973, a repeat of the severe dollar outflows in 1971 led to a suspension of Forex trading for almost three weeks. Upon reopening, the major currencies were floating with respect to each other. The Bretton Woods system was dead.

(a) Why Bretton woods system collapsed? **07**

(b) How & Why IMF was established? How its functioning today? **07**

OR

Q.5 **(a)** BoP is a very important economic indicator affecting the health of any economy. Do you agree? Explain it keeping in mind its role during Bretton Woods System. **07**

(b) Was Bretton Woods system the first step towards US dollar being the dominating currency? Explain. **07**

****