

Economics 103 — Spring 2021

International Monetary Relations

Writing Assignment 3

The U.S. Dollar as a Dominant Currency

May 18, 2021

Due: **Fri, June 4, before 4:50pm**
Submit through Canvas under Turnitin

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This writing assignment asks you to assess the prospects for the U.S. dollar to remain a dominant vehicle and reserve currency and the resulting “exorbitant privilege.” There is no unique theory or conceptual model for the assessment, and there is no single data perspective. Make as compelling an argument as possible.

Readings and Data

On the prospects for the U.S. dollar, consult the article “Two Views of the International Monetary System” by Eichengreen (2019) at <https://doi.org/10.1007/s10272-019-0830-3>. For an understanding of the concepts of vehicle and reserve currencies, and their evolution, see Iancu et al. (2020) at <https://www.imf.org/-/media/Files/Publications/DP/2020/English/RCEIMSEA.ashx>. For a view on exorbitant privilege, consult the post “The Dollar’s International Role: An ‘Exorbitant Privilege’?” by Bernanke (2016) at <https://www.brookings.edu/blogs/ben-bernanke/posts/2016/01/07-dollar-international-role>. **Read** the publications and make sure you understand the concepts of vehicle currencies, reserve currencies, and exorbitant privilege. **Infer** the criteria by which the different authors judge a currency to be a dominant vehicle or reserve currency and to afford its issuing country an exorbitant privilege.

Use the following two main data sources. For a quantification of the role of vehicle currencies, consult the Bank of International Settlements and its statistics on *Turnover of OTC foreign exchange instruments by currency* at <https://stats.bis.org/statx/srs/table/d11.3>. For a quantification of the role of reserve currencies, consult the International Monetary Fund and its statistics on the *Currency Composition of Official Foreign Exchange Reserves* at <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>. Relevant statistics from these two main data sources are crucial for the quality of your writing assignment.

There is a number of useful ancillary data sources. For example, you can infer the total amount of U.S. dollars in circulation from the Federal Reserve’s *Money Stock Measures* at <https://www.federalreserve.gov/releases/h6/current/default.htm>. You may want to consider M2 as a useful money aggregate because the definition of M1 happened to change substantively in May 2020. Or you can take a real-side perspective and query imports and exports of the United States as a share of the world total using the World Bank’s World Development Indicators (at <https://databank.worldbank.org/reports.aspx?source=world-development-indicators>). For information on interest rates of benchmark assets (such as *3-month Treasury Bill Yields* or *10-year Government Bond Yields*) you can access Global Financial Data at <https://finaeon.globalfinancialdata.com/account/login>. The use of these ancillary data sources depends on the argument that you want to pursue. They are not necessarily equally important for the quality of your writing assignment.

Writing

Suppose you are writing to explain the prospects for the U.S. dollar to a freshman in economics at UC San Diego. Plan on writing four paragraphs and up to 500 words total. If you need more paragraphs or more words, the cap is not binding. However, grading will reward concision and penalize imprecision or superfluous information.

In your paper, 1) **write** an opening paragraph that defines vehicle and reserve currencies and explains exorbitant privilege. 2) **Use** the three data sources above to **characterize** the evolving role of the U.S. dollar as a possible vehicle and reserve currency. Reference either Bernanke (2016) or Iancu et al. (2020) to explain the plausible consequences for exorbitant privilege. If you need more than two paragraphs to do so, write more than two paragraphs. 3) In a final paragraph critically **assess** the usefulness and limitations of the basic statistics for your assessment of the prospects of the U.S. dollar as a dominant vehicle and reserve currency with the associated exorbitant privilege.

Writing Tutor

For assistance during the writing process, the Writing Hub at the UC San Diego Teaching+Learning Commons has arranged for special capacity to assist and advise you on the writing assignment. Seeing a Writing Hub tutor is mandatory, and you receive ten points for seeing a tutor. Please make appointments early by visiting the Writing Hub at the UC San Diego Commons or their web page at <https://ucsd.mywconline.com>. The writing tutor services are open Sunday through Friday, including on evenings. Please see writinghub.ucsd.edu for hours. Appointment times are limited, so book in advance. You do not need to have a late-stage draft for your appointment; you are welcome to work with the tutor on a draft in progress. Consider using the appointment as a way to give yourself accountability for a timely completion of the assignment.

References

- Bernanke, Ben S.** 2016. "The Dollar's International Role: An "Exorbitant Privilege"?" *Brookings Institution, Blog Archive*, www.brookings.edu/blogs/ben-bernanke, accessed May 17, 2021.
- Eichengreen, Barry.** 2019. "Two Views of the International Monetary System." *Intereconomics*, 54(4): 233–36.
- Iancu, Alina, Gareth Anderson, Sakai Ando, Ethan Boswell, Andrea Gamba, Shushanik Hakobyan, Lusine Lusinyan, Neil Meads, and Yiqun Wu.** 2020. "Reserve Currencies in an Evolving International Monetary System." *International Monetary Fund Departmental Papers*, 2020/002.