

Reading 16**MONETARY POLICY****1. (C) hegemony.****Explanation**

Hegemony refers to behaviour that reflects globalization and non-cooperation. Autarky and bilateralism both refer to behaviour that reflects nationalism.

(Module 16.1, LOS 16.b)

2. (B) low.**Explanation**

A black swan risk is an exogenous risk with a low likelihood of occurrence, but a high short-term impact. If an investor has a long-time horizon (and 25 years is considered long) before he plans to shift allocations, an event that would be categorized as a black swan risk would not cause the investor to react in any way. Reactions to these events are much more likely for investors with short time horizons.

(Module 16.1, LOS 16.d)

3. (C) World Trade Organization.**Explanation**

The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible.

(Module 16.1, LOS 16.c)

4. (C) reducing poverty is the World Bank.**Explanation**

The World Bank has the explicit mission of fighting poverty. Both the WTO and IMF work to expand international trade. Both the World Bank and IMF provide funds to member nations, the World Bank for development and the IMF when member nations experience balance of payments difficulties.

(Module 16.1, LOS 16.c)

5. (B) International Monetary Fund.

Explanation

The IMF's main goals are promoting international monetary cooperation; facilitating the expansion and balanced growth of international trade; promoting exchange stability; assisting in the establishment of a multilateral system of payments; and making resources available (with adequate safeguards) to members.

(Module 16.1, LOS 16.c)

6. (A) cooperation and nationalism.

Explanation

Archetypes of geopolitical behaviour by countries include bilateralism (cooperation and nationalism), autarky (non-cooperation and nationalism), hegemony (non-cooperation and globalization), and multilateralism (cooperation and globalization).

(Module 16.1, LOS 16.b)

7. (A) a financial tool of geopolitics.

Explanation

Sanctions refer to restrictions on the financial interests of specific geopolitical actors and are considered a financial tool of geopolitics.

(Module 16.1, LOS 16.e)

8. (B) autarky.

Explanation

Autarky refers to a policy of seeking self-sufficiency by engaging in little or no external trade.

(Module 16.1, LOS 16.b)

9. (A) promoting exchange rate stability.

Explanation

The primary goals of the IMF are to promote international monetary cooperation, facilitate growth of international trade, promote exchange rate stability, assist in establishing a multilateral payment system, and provide resources to members with balance of payments difficulties. Reducing global poverty is a role of the World Bank. Resolving trade disputes is a role of the World Trade Organization.

(Module 16.1, LOS 16.c)

10. (B) unanticipated.

Explanation

Exogenous risk refers to unanticipated geopolitical events. Thematic risk refers to factors with known or anticipated long-term effects. Event risk refers to factors that are known in terms of timing but not outcome.

(Module 16.1, LOS 16.d)

11. (C) greater impacts during recessionary phases of business cycles.

Explanation

Geopolitical risks often have greater impacts during recessions than they would likely have during expansions. Geopolitical risks may have discrete impacts on specific companies or industries as well as broad impacts on countries and regions. Scenario analysis is a technique for modelling the potential impacts of geopolitical risks.

(Module 16.1, LOS 16.f)

12. (A) short-term effects and a low probability of occurrence.

Explanation

Exogenous risks relate to unanticipated geopolitical risk. A black swan risk is an exogenous risk with a low likelihood of occurrence, but a high short-term impact.

(Module 16.1, LOS 16.d)

13. (C) investment values reflect the effects of a risk.

Explanation

The effects of geopolitical risk on investments can be analysed in terms of likelihood (probability of occurrence), impact (magnitude of the effects on investment outcomes), and velocity (speed with which investment values reflect these effects).

(Module 16.1, LOS 16.d)

14. (A) Only one of these actions.

Explanation

In the context of geopolitics, "cooperation" refers to interaction and engagement among countries. While participating in trade agreements is considered cooperative, banning exports of a particular good is considered non-cooperative.

(Module 16.1, LOS 16.a)

15. (B) low

Explanation

A low-velocity classification describes a geopolitical risk that will take a long time to impact investment values. Risks that land in the environmental, social, and governance area tend to be low-velocity risks.

(Module 16.1, LOS 16.d)

