Study Questions for Mundell (2000):

Mundell sees the challenge for the 21st century as two-part: (1) controlling dysfunctional volatility in the exchange rates between the three main currencies (dollar, euro, yen), and (2) creating an international currency. A very similar challenge, he suggests, last faced us in the waning days of WWII, but instead of bold moves we got Bretton Woods, which simply codified the order then already in place, i.e. a dollar standard. Indeed, Mundell goes so far as to suggest that even the role of gold in the dollar standard system was more or less an afterthought (footnote 13).

In this article we can dimly see the outlines of the system that Mundell would like to see. He imagines (1) individual countries achieving more or less price stability internally, which creates the groundwork for (2) greatly reduced exchange rate volatility externally, although not fixed exchange. In this system there will be three main currencies (at least) and no one of them will be central (as the dollar was after WWII). That creates room and the need for (3) an international currency, perhaps along the lines of the "hard SDR" first broached in 1967 (p. 334). In terms of the hierarchy of money, Mundell seems to envision the international currency at the top, the three main national currencies at the next lower level, and everything else below that.

1) To what extent has the history of the monetary order been an organic evolution from everyday interactions, and to what extent has it been the result of conscious structuring by policy intervention? To what extent (therefore?) can one expect future changes to be driven by natural evolution, and to what extent by conscious intervention?

2) Mundell's account of the 20th century puts a lot of weight on gold, and on whether gold is "undervalued" or "overvalued" by the exchange system that is in place at any time. Does that make him a metallist? To what extent can we understand him as having a theory of a metallist "natural" hierarchy emerging from the market interactions of private individuals, that comes into conflict with the chartalist "artificial" hierarchy emerging from the political power of states.

3) In places, Mundell seems to be asserting the counterfactual historical claim that, if somehow we had been able to retain the monetary system in place at the dawn of the 20th century, we could have escaped World War, Depression, and much else. So for him there are very high stakes on the table in debate about improvement of our current monetary system. What are the major <u>political</u> differences that distinguish his counterfactual from what actually happened?

4) Mundell suggests that supply side economics arose in reaction to the evident failure of the unanchored flexible rate system in place in the 1970s. "Plato the inflationist gave birth to Aristotle, the hard-money man." (p. 338) Compare and contrast this account of the forces causing macroeconomics to change with the standard one taught in most intermediate macroeconomics courses that traces the evolution of macroeconomic thinking from expectations adjusted Phillips curves

(Friedman and Phelps) to rational expectations (Lucas) to real business cycles (Prescott). The standard story is about evolution of theory according to the internal logic of academia; Mundell's is about something else.