Teacher Answer Key

Case Study

1. Financing deficits by printing money flooded reserves, eroded confidence, and triggered a feedback loop of price increases.

2. Dollarization halted domestic money creation and stabilized prices, but sacrificed monetary policy independence and seigniorage.

Multiple Choice

1. A

2. C

3. B

Matching

1-B, 2-D, 3-A, 4-E, 5-C

Fill-in-the-Blank

1) demand, 2) expectation, 3) Wage and price controls

Short Answer (Sample Responses)

Q1: Excess money leads to more spending than goods available, pushing up prices.

Q2: Savings become worthless, eroding household wealth and undermining social trust.

Q3: Raising rates increases borrowing costs, cools demand, and signals commitment to low inflation.