

FINANCE

Learning Plan 11



Iraqi Currency

After the invasion of Iraq and the removal of Saddam Hussein, a provisional government was established to help the country to get back on its feet and as part of the process it had to revise the country's monetary system and currency. The whole process landed the Iraqi dinar in crisis. Review the three segments of the case and write your responses as instructed.

No matter what a particular society uses for money, its primary purpose is to enable a person or organization to transform a desire into an action. These desires may be for entertainment actions, such as party expenses; operating

actions, such as paying for rent, utilities, or employees; investing actions, such as buying property or equipment; or financing actions, such as for starting or growing a business. Money serves three important functions: as a medium of exchange, a measure of value, and a store of value.

PART 1

After the invasion of Iraq and the removal of Sadaam Hussein, a provisional government was established to help the country get back on its feet. Part of establishing a new government involves revising its monetary system ad currency. Saddam Hussein's picture was removed

from the Iraqi currency, the dinar, and the currency was redesigned, with a new form of the dinar introduced into circulation. More than 10,000 tons of old notes with Saddam's portrait were destroyed after the new currency was circulated. The new illls are printed in different colors that were more difficult to counterfeit than the currency from the old regime.

1. Why did the Iraqi government revise the country's monetary system & currency?

PART 2

The new Iraqi currency is printed in denominations of 50, 250, 1,000, 5,000, 10,000, and 25,000. Such large denominations are necessary because 250 dinars equaled about 16 cents in US dollars at the time. Thus, the 10,000 dinar note is worth about \$6.40. Small denominations are more popular because many retailers will not accept larger notes as payment, in part because of rumors that banks in Iraq would no longer accept 10,000 dinar notes. Therefore, the country had to print millions of 250 dinar notes so that Iraqi

citizens could spend money to help revive the economy.

2. What were the reasons for choosing those specific currency denominations?

PART 3

As the people of Iraq assume full control of their government and their money, they need to decide to design and introduce a brand-new currency for Iraq. Some of the issues they will have to address are how to determine its value of the currency and what will be an appropriate exchange rate. Although many would like to tie the dinar to the US dollar,

few governments have been able to take this approach without major drawbacks. If the dinar is fixed to the US dollar, the country could suffer even more instability when the US dollar varies against other currencies. Of course, there is the concern that tying the dinar to the US dollar might confirm to many in the world community that the US is involved in imperialism. The dinar must become a symbol that the Iraqi people can trust.

3. What are the problems associated with tying the value of the dinar to the US dollar?

