



**Anglia International Examinations**  
**Diploma in Applied Translation**  
**Assessment for Unit 5**  
**(English to Spanish)**  
**Advanced Translation**  
**Unit Code:DAT/IA/02-1314**

**INSTRUCTIONS:**

- Time allowed - Eight hours.

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**Assessment for Unit 5**  
**Carrying out advanced translation**

*Candidates must translate this report into Spanish, replicating the style and the format in which it has been presented exactly. Candidates must carry out the assessment in a controlled area. The completed assessment must be emailed back in the same format by 5 o'clock on the same day to the email address provided by the assessor.*

Anglia Examinations Sample Paper

## Economic Crisis or Economic End-game? - The US budget stand-off

Most economic crises are self-inflicted, but some seem more so than others. The crisis du jour - the US budget talks, or rather, the lack of them - is an entirely man-made one, in that it is both wholly avoidable and doesn't appear to have any underlying economic causes, beyond the obvious - that if America hadn't borrowed so much, it would not be having this debate. It's not that the US cannot honour its debts; it's that political stalemate means there is some chance it won't. This is a political road crash, not an economic implosion.

As the shutdown of some government services approaches the end of a second week, positions have hardened. Congress may grant a limited extension, but it only postpones the final reckoning. At the annual meeting of the International Monetary Fund in Washington this week, few can talk about anything else. Will the US default or not, and if it does, just how bad it is going to be?

The background is that the US government hit its legal debt limit of \$16.7 trillion last May and has since been rubbing along on a series of increasingly desperate measures to conserve cash and delay expenditures. According to the US Treasury Secretary, Jack Lew, these measures will soon be exhausted. There is a small cash buffer that could keep the show on the road for a few weeks longer, but most analysts agree that without an extension, the federal government will have run out of money by early next month. At that stage, it will either have to take savage action to match expenditures with revenues, or start defaulting on its debts.

Many would now say that the sun is setting on dollar supremacy, and with it, American power. A serious alternative to the dollar is still a long way off, but the latest shenanigans on Capitol Hill have given the search for them renewed momentum. Such is the dollar's dominance that, to begin with at least, investors might simply have to take default on the chin.

All great empires - from the Greek, to the Roman, the Spanish and the British - have at their heart a dominant means of exchange which is very much part of their political and social hegemony. Once upon a time, it was Roman coinage which was the world's pre-eminent currency. In more recent times it was the British pound. Today, it's the US dollar to which international investors flock as a safe haven for their money. Highly liquid and apparently reliable - until recently at least - nothing else comes even remotely close to the greenback's dominant position in the international monetary system.

That this position - what Giscard d'Estaing referred to as America's "exorbitant privilege" - could so casually be put at risk by politicians on Capitol Hill is an extraordinary spectacle that may be indicative of a great power already seriously on the wane.

With the pound, the fall from grace was swift. Britain emerged from the devastation of the First World War an irreparably damaged economic and military power, with crushing debts and a deeply impaired manufacturing sector.

The dollar was able quickly to usurp the pound's position. Final defeat for sterling came with Britain's decision to leave the gold standard in 1931 - an economically sensible decision but a psychological turning point for sterling from which it never recovered.

Lack of any credible alternative means it won't happen so quickly with the dollar. For all the progress of the last 30 years, China for now remains a much smaller economy than the US and in any case is nowhere near ready financially to assume such a role. As for the euro, the dollar needn't trouble itself much about this one-time pretender to the throne.

Yet rarely before has international dissatisfaction with the dollar's role as reserve currency to the world been as great as it is now. The most visible anger comes from China, with more than \$3 trillion of dollar foreign exchange reserves, \$1.3 trillion of them held in US Treasuries. For ordinary Chinese, it has come as a revelation to discover they own so much American debt. That they own it in a country which because of political brinkmanship may actually default has provoked understandable fury.

"It is perhaps a good time for the befuddled world to start considering building a de-Americanised world", China's official government news agency has said.

A steady erosion of trust which began with the financial crisis five years ago has reached apparent breaking point with the pantomime antics on Capitol Hill. The search for long-term alternatives to the dollar is on as never before. Regrettably, there aren't any, or not for the time being in any case. Everyone can only look on in horror as the US commits apparent economic suicide.

Such is the dollar's dominance that, to begin with at least, investors might simply have to take default on the chin. More than 60pc of global foreign exchange reserves are held in US dollars, which also account for more than 80 per cent of global foreign exchange trading.

So important is dollar liquidity in global trade that if, for instance, you wanted to sell Singapore dollars and buy South African rand, your forex dealer would first typically buy US dollars with your Singapore dollars and then use them to buy the South African rand. The dollar is the middle currency in the vast bulk of international transactions.

By the same token, US Treasuries are the very backbone of the global financial system. They are the supposed "risk-free asset" against which everything else is benchmarked, and as such are the collateral of choice in a huge array of financial market transactions. The dollar is also the currency used to price most commodities, from oil to gold.

The dollar's hegemony is all pervasive. This has given the greenback a degree of leverage unmatched by any other reserve currency in history. If China starts to sell dollar assets, it will only weaken the dollar, undermining Chinese exports and reducing the value of its remaining portfolio of dollar assets.

I'd been part of the received wisdom that any act of US default would set off a devastating chain reaction of bankruptcies that would provoke a second global financial crisis. But David Bloom, chief currency strategist at HSBC, has convinced me that dollar hegemony might perversely act in the opposite way, at least initially.

Unlike a generalised credit event, where all instruments default at the same time, the US would initially engage in a series of little, self-contained defaults, or "selective defaults", whose individual impact would probably not be that great.

Each bond has a life and coupon of its own. The missed coupon payment might therefore be regarded as not so bad - especially as this is a case of "won't pay", rather than "can't pay".

Markets see such defaults differently, with missed payments expected to be made up eventually once a political resolution is found. It's also very likely that the Federal Reserve would attempt to counter the damage in financial markets with more QE, buying up the Treasuries that investors dumped.

Furthermore, the financial uncertainty created by default would likely drive investors towards past safe havens of choice - in particular, US dollar assets. Alternative safe havens, such as Japan and Switzerland, have been rendered defunct by central bank money printing. Ironically, emerging markets are likely to be more damaged by default than the US itself, with further capital flight.

Such is the degree of "exorbitant privilege" enjoyed by the dollar that it might therefore be the first currency in history to see an asset price rally on the back of a default. However, if there were repeated selective defaults, a second, less benign phase would eventually set in. Spooked markets would begin to sell off the dollar.

The consequent stronger euro and pound would have powerfully deflationary consequences for Europe. Internal demand in the US would also collapse as a result of the wrenching fiscal squeeze that would result from federal government attempts to match expenditures with tax revenues.

Dollar hegemony has long been a destabilising force at the centre of the international monetary system; it's a major part of the sharp build-up in global current account imbalances and cross border capital flows that have been at the heart of so many of the problems in the world economy. The unprecedented accumulation of dollar foreign exchange reserves has in turn caused new challenges for the US, making it more difficult to maintain fiscal and financial stability within its own borders.

Policies that may or may not be good for the US are in all probability bad for everyone else. Loose monetary policy in the US since the crisis began has induced unwanted demand and asset bubbles elsewhere in the world.

Serious alternatives to the dollar, such as a global reserve currency, are still a long way off, but the latest shenanigans on Capitol Hill have given the search for them renewed and added momentum. The US is recklessly throwing away its future.