Fixed Exchange Rate And Floating Exchange Rate

Exchange rate regime It is closely related to monetary policy and the two are generally dependent on many of the same factors, such as economic scale and openness, inflation rate, the elasticity of the labor market, financial market development, and capital mobility. There is no "correct" level of the exchange rate and the overall national An exchange rate regime is a way a monetary authority of a country or currency union manages the currency about other currencies and the foreign exchange market. before deciding on a fixed or floating currency, with pros and cons to both choices 5960ef6107

== Introduction == 5960ef6107 From 1946 to the early 1970s, the Bretton Woods system made fixed currencies the norm... 5960ef6107

Floating rate note e. they pay out interest every three months. 20%. The spread is a rate that remains constant. At the beginning of each coupon period, the coupon is calculated by taking the fixing of the reference rate for that day and adding the spread. Almost all FRNs have quarterly coupons, i. Floating rate notes (FRNs) are bonds that have a variable coupon, equal to a money market reference rate, like SOFR or federal funds rate, plus a quoted Floating rate notes (FRNs) are bonds that have a variable coupon, equal to a money market reference rate, like SOFR or federal funds rate, plus a quoted spread (also known as quoted margin). A typical coupon would look like 3 months USD SOFR +0 5960ef6107

Unlike a fixed exchange rate system, the government or central bank does not actively interfere in the foreign exchange market by controlling supply and demand of the currency in order to influence the exchange rate. The exchange rate is instead stabilized by an exchange mechanism, whereby the Hong Kong Monetary Authority (HKMA) authorises note-issuing banks to issue new banknotes provided that they deposit an equivalent value of US dollars with the HKMA. The Government, through the HKMA, authorises three commercial banks to issue banknotes: 5960ef6107

Exchange rate Currencies are most commonly national currencies, but may be sub-national as in the case of Hong Kong or supra-national as in the case of the euro. example, a currency may be floating, pegged (fixed), or a hybrid. Countries can also have In finance, an exchange rate is the rate at which one currency will be exchanged for another currency. Governments can impose certain limits and controls on exchange rates 5960ef6107

There are benefits and risks to using a fixed exchange rate system. A fixed exchange rate is typically used to stabilize the exchange rate of a currency by directly fixing its value in a predetermined ratio to a different, more stable, or more internationally prevalent currency (or currencies) to which the currency is pegged. In doing so, the exchange rate between the currency and its peg does not change based on market conditions, unlike in a floating (flexible) exchange regime. This makes trade and investments between the two currency areas easier and more predictable and is especially useful for small economies that borrow primarily in foreign currency and in which external trade forms a large part of their GDP. 5960ef6107 In the United States, banks and financial service companies have been among the largest issuers of these securities. The U.S. Treasury began issuing them in 2014, and government sponsored enterprises (GSEs) such as the Federal Home Loan Banks, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are important issuers. In Europe, the main issuers are banks. 5960ef6107 Notes (HK$10 only) are also issued by the HKMA itself because of the continuing demand for small value notes among the public. 5960ef6107 Intermediate regimes: horizontal bands, crawling pegs and crawling bands 5960ef6107 The exchange rate is also regarded as the value of one country's currency in relation to another currency. For example, an interbank exchange rate of 141 Japanese yen to the United States dollar means that ¥141 will be exchanged for US$1 or that US$1 will be exchanged for ¥141. In this case it is said that the price of a dollar in relation to yen is ¥141, or equivalently that the price of a yen in relation to dollars is $1/141. 5960ef6107

Real exchange-rate puzzles real-exchange-rate anomaly was documented by Mussa (1986). These two anomalies are sometimes referred to as the purchasing power parity puzzles. In this paper Mussa documented that industrial countries which moved from fixed to floating exchange The real exchange-rate puzzles is a common term for two much-discussed anomalies of real exchange rates: that real exchange rates are more volatile and show more persistence than what most models can account for 5960ef6107

Each country determines the exchange rate regime that will apply to its currency. For example, a currency may be floating, pegged (fixed), or a hybrid. Governments can impose certain limits and controls on exchange rates. Countries can also have a strong or weak currency. There is no agreement in the economic literature on the optimal national exchange rate policy (unlike on the subject of trade where free trade is considered... 5960ef6107 the Standard Chartered Bank (Hong Kong) Limited; and 5960ef6107 Floating (or flexible) exchange rate regimes exist where exchange rates are determined solely by market forces, and often manipulated by open-market operations. Countries do have the ability to influence their floating currency from activities such as buying/selling currency reserves, changing interest rates, and through foreign trade agreements. 5960ef6107 A dual exchange rate policy can arise for a variety of reasons. In the past, European and Latin American countries have used dual exchange rates to ease the transition from a fixed rate to a floating rate. Dual exchange rates are similar to multiple exchange rates in that they can appear when there is simultaneously both an official and black market rate. 5960ef6107 == History == 5960ef6107 Every currency area must decide what type of exchange rate arrangement to maintain. Between permanently fixed and completely flexible, some take heterogeneous approaches. They have different implications for the extent to which national authorities participate in foreign exchange markets. According to their degree of flexibility, post-Bretton Woods-exchange rate regimes are arranged into three categories: 5960ef6107 These two anomalies are related to, but should not be confused with, the Backus-Smith consumption-real exchange rate anomaly, which is the observation that in most economic models the correlation between the real exchange rate and relative consumption is high and positive, whereas in the data it ranges from... 5960ef6107 The exchange rate may be quoted as a ratio, for instance, USD/EUR might be equal to 0.8625. 5960ef6107 Fixed (or pegged) exchange rate regimes exist when a country sets... 5960ef6107

Exchange-rate flexibility Between permanently fixed and completely flexible, some take heterogeneous In macroeconomics, a flexible exchange-rate system is a monetary system that allows the exchange rate to be determined by supply and demand. Every currency area must decide what type of exchange rate arrangement to maintain 5960ef6107

== Overview == 5960ef6107 In the modern world, most of the world's currencies are floating, and include the majority of the most widely traded currencies: the United States dollar, the euro, the Japanese yen, the pound sterling, or the Australian dollar. However, even with floating currencies, central banks sometimes participate in markets to attempt to influence the value of floating exchange rates. The Canadian dollar has not seen interference by the Canadian national bank with its price since September 1998. The US dollar also sees very little change of its foreign reserves. 5960ef6107 A fixed exchange rate system can also be used to control the behavior of a currency, such as by limiting rates of inflation. However, in doing so, the pegged currency is then controlled... 5960ef6107 Chari, Kehoe and McGrattan (2002) showed how a model with two countries and where prices were only allowed to change once-a-year had the potential to simultaneously account for the volatility of U.S. output and real exchange rates. 5960ef6107 There are two major regime types: 5960ef6107 == Issuers == 5960ef6107 There is no correct or optimal exchange rate. However, the exchange rate has distributional consequences with winners and losers in the domestic economy. Exporters and importers lose with currency appreciation while consumers and domestic oriented industries benefit from currency appreciation. A currency depreciation has the opposite effect. 5960ef6107 Flexible regimes: managed and independent floats 5960ef6107

Floating exchange rate In contrast, a fixed currency is one where its value is specified in terms of material goods, another currency, or a group of other currencies. events affecting exchange rates. In contrast, a fixed currency is one where In macroeconomics and economic policy, a floating exchange rate (also known as a fluctuating or flexible exchange rate) is a type of exchange rate regime in which a currency's value is allowed to fluctuate in response to international events affecting exchange rates. A currency that uses a floating exchange rate is known as a floating currency. The idea of a fixed currency is to reduce currency fluctuations. A currency that uses a floating exchange rate is known as a floating currency 5960ef6107

Linked exchange rate system in Hong Kong The Macao pataca (MOP) is similarly linked to the Hong Kong dollar. It is the exchange rate system implemented in Hong Kong to stabilise the exchange rate between the Hong Kong dollar (HKD) and the United States dollar (USD). a fixed exchange rate system, the government or central bank does not actively interfere in the foreign exchange market by controlling supply and demand A linked exchange rate system is a type of exchange rate regime that pegs the exchange rate of one currency to another 5960ef6107

Dornbusch's (1976) exchange rate overshooting hypothesis argued that exchange rate volatility is essentially driven by monetary shocks interacting with sticky prices. This model can account for real exchange rate volatility, but does not say anything about the volatility of relative to output or the persistence of the real exchange rate movements. 5960ef6107 The Hongkong and Shanghai Banking Corporation Limited; 5960ef6107

Fixed exchange rate system A fixed exchange rate, often called a pegged exchange rate or pegging, is a type of exchange rate regime in which a currency's value is fixed, or pegged A fixed exchange rate, often called a pegged exchange rate or pegging, is a type of exchange rate regime in which a currency's value is fixed, or pegged, by a monetary authority against the value of another currency, a basket of other currencies, or another measure of value, such as gold or silver 5960ef6107

Fixed-rate regime: currency unions, dollarized regimes, currency boards and conventional currency pegs 5960ef6107

Dual exchange rate Dual exchange rates are similar In economics, a dual exchange rate is the occurrence of two different values of a currency for different sets of monetary transactions. One of the most common types consists of a government setting one exchange rate for specific transactions involving foreign exchange and another exchange rate governing other transactions. European and Latin American countries have used dual exchange rates to ease the transition from a fixed rate to a floating rate 5960ef6107

In the gold standard and the Bretton Woods system, the major developed countries mainly implemented fixed exchange rate systems. Due to the devaluation of the pound around the 1970s and the collapse of the Bretton Woods system, many developed countries switched to floating exchange rates. In 1971, France started to adopt the dual exchange rate system. After that, in 1973, Italy also adopted this system. Both countries maintained these dual exchange rate systems through the early 1970s. The Belgium–Luxembourg... 5960ef6107 the Bank of China (Hong Kong) Limited. 5960ef6107 The forward exchange rate... 5960ef6107 All monetary regimes except for the permanently fixed regime experience the time inconsistency problem and exchange rate volatility, albeit to different degrees. 5960ef6107

Forward exchange rate forward exchange rate (also sometimes referred to as forward rate or forward price) is the exchange rate at which two counterparties (such as a bank and an The forward exchange rate (also sometimes referred to as forward rate or forward price) is the exchange rate at which two counterparties (such as a bank and an investor) agree to exchange one currency for another at a future date when they enter into a forward contract. When in equilibrium, and when interest rates vary across two countries, the parity condition implies that the forward rate includes a premium or discount reflecting the interest rate differential. The forward exchange rate is determined by a parity relationship among the spot exchange rate and differences in interest rates between two countries, which reflects an economic equilibrium in the foreign exchange market under which arbitrage opportunities are eliminated. Financial economists have put forth a hypothesis that the forward rate accurately predicts the future spot rate, for which empirical evidence is mixed. Forward exchange rates have important theoretical implications for forecasting future spot exchange rates. Multinational corporations, banks, and other financial institutions enter into forward contracts to take advantage of the forward rate for hedging purposes 5960ef6107