## Assignment of Finance and Management

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## Q: Under a fixed exchange regime what is the go responsible for?

The concept of a fixed exchange regime was introduced in the 1970s when developing economies were getting their position in the market. The purpose of this concept was to develop a standard exchange rate for all officials, who deal in the international market. A fixed exchange regime is applied by the central bank of the country or the government to maintain the currency value amongst the currencies of other countries or nations. The term fixed exchange refers to the official exchange rates maintained by the government to facilitate the exporters, investors, and foreigners. In this perspective, the government of the country remains responsible to maintain low inflation to keep the interest rates down and stimulate foreign investment and trading. That is why the major industrialized nations maintain floating exchange rate systems, which prove to be highly effective to them in grabbing the attention of foreign investors and trading, which in return generates great revenue and positive image amongst other nations.

## Q2: Explain why/why not the foreign exchange market is believed to be efficient?

No, the foreign exchange market is not much efficient for international traders. Though the foreign exchange market was developed to facilitate the merchants, traders, investors, and other dealers of the international market but it effects the market in various ways. The most prominent factor which affects the efficiency of the foreign exchange market is found to be fluctuation in market prices of the currencies. The rapid increase and decrease in the prices prove to be a great risk for all business owners, as well as traders. Also it makes it difficult for the organizations to predict their profit margin. Also, some of the companies use this as their profit tactics, which is also known as currency hedging. The currency hedging refers to the technique for increasing profit or to protect the company from any sort of loss. The companies invest in the market when they pay something to the customers and then use the currency hedging technique when the have to receive payment from the customers. For example, when a Japanese firm had ninety days to make a payment to an Italian company, it entered into a contract with its banks to exchange the payment, which protected it from sudden depreciation of the yen (Schmitz, 2011).

## Explain the impact of the international gold standard on the currency exchange rate?

International gold standards are the best way to trade with other nations. It means purchasing gold at the international fixed rates and then trade in terms of gold. If the countries will start using international gold standards, many countries like the United States, will face great fall in their economic condition. This is because gold trading does not require trading costs or exchange rates. There will be fixed standards for the gold price, and thus every country will be able to purchase the gold, through which the issues of currency hedging and price fluctuation of the exchange market will be resolved (Britannica, 2019). The greatest benefits of the gold standards are that it will bring value to the money, where each country will trade on the behalf of international gold standards, rather than monopolies of power. Also, it will bring stability to the economies and will discourage inflation of currencies (Schmitz, 2011).

References

Britannica. (2019). International gold standard. *Britannica.com*.

Schmitz, A. (2011). *Foreign Exchange and the Global Capital Markets.* Atma Global Inc.