

## INTRODUCTION

Complete the introduction with the appropriate forms of the following verbs and add suitable prepositions where necessary:

***peg; fix; determine; underlie; reflect; engage; adopt***

The value of a country's currency is extremely important to all businesses ..... international trade. For over a quarter of a century after the second world war, most major currencies ..... the US dollar, which in turn ..... gold. Since the early 1970s, there has been a system of managed floating exchange rate, largely ..... supply and demand, which in theory ..... a country's balance of payments and rate of inflation. In fact, many currency movements seem to be influenced by speculation rather than ..... economic activity. Currency speculation in Western Europe was greatly reduced when a common currency, the euro, ..... twelve countries in 2002.

*(Source: English for Business Studies, Teacher's Book, p. 122)*

### Exchange rates – Reading p. 140-142/1b

#### I. The period of gold convertibility

Complete the sentences with the appropriate forms of the following verbs and add suitable prepositions where necessary:

***exchange; define; adjust; abandon; peg; fix; establish***

The Bretton Wood agreement of 1944 ..... fixed exchange rates, ..... in terms of gold and the US dollar. From then to 1971, many currencies ..... the US dollar, i.e. that their parities ..... . During this period, a US dollar was a promissory note which on request had to ..... 1/35th of an ounce of gold. Under this system, overvalued or undervalued currencies could only ..... with the agreement of the International Monetary Fund. Such adjustments are called devaluations and revaluations. The Bretton Wood system ..... in 1971 when following inflation, the Fed did not have enough gold to guarantee the American currency.

#### II. Floating exchange rates

Complete the sentences with the appropriate forms of the following verbs:

***reflect; determine; replace; follow; be; underestimate; establish***

Gold convertibility ..... a system of floating exchange rates which ..... purely by supply and demand. Milton Friedman, one of the proponents of the latter, argued that currencies would automatically ..... stable exchange rates which would ..... economic realities more precisely than calculations by central bank officials. Yet they ..... the impact of speculation, and the fact that many companies and investors frequently ..... short-term money market trends even if these ..... contrary to their own long-term interest.

#### III. The abolition of exchange controls

Complete the sentences with the appropriate translations of the following words or phrases:

***deregulovat; zrušit; nemít vztah k/netýkat se; čistě spekulativní;  
(pro)následovat; snažit se maximalizovat; rozpětí/marže***

In the late 1970s and early 1980s, the American, British and other governments ..... their financial systems and ..... all exchange controls. This has led to the current situation in which 95% of the world's currency transactions ..... transactions in goods but are ..... . Enormous

amounts of money move around the world, ..... high interest rates or capital gains as investors ..... the value of their assets. Banks, of course, make a profit from ..... between a currency's buying and selling prices.

#### IV. Intervention and managed floating exchange rates

Complete the sentences with the appropriate translations of the following words or phrases and add suitable prepositions where necessary:

##### 1. *několik málo* (count) ; *nechat úrokové míry zcela na milost či nemilost*

Managed (or dirty) floating exchange rates are more common than freely floating ones as ..... governments ..... market forces.

##### 2. *vychýlit se/odchýlit se o*; *zasahovat do/intervenovat v*

In the European Monetary System (EMS) there was an Exchange Rate Mechanism (ERM): if the rate ..... more than plus or minus 2.25% from the central parity, central banks had to ..... exchange markets to increase or decrease the value of their currency.

#### V. The power of speculators and the collapse of the EMS

From each pair of words printed in bold choose the correct one:

For weeks in 1992 all the world's financial institutions and rich individuals had been selling pounds as everybody ***except/included*** the British Government believed that the pound had been ***undervalued/overvalued*** since it belatedly joined the ERM in 1990. When the British central bank ***ran out of/build up*** reserves and could no longer buy pounds, the currency was ***withdrawn from/introduced in*** the ERM and ***prevented from floating/allowed to float***, instantly losing about 15% of its value against the D-mark. ***The next year/ Next year***, speculators attacked five other European currencies and the EMS was ***restored/suspended***. It was later ***undermined/reintroduced*** in a looser form.

#### VI. Why many business people would prefer a single currency

Complete the gaps with suitable prepositions:

Although it is possible **1)** ..... some extent to hedge **2)** ..... currency fluctuations **3)** ..... way **4)** ..... futures contracts, forward planning is difficult when the price can rise or fall **5)** ..... 50% in only a few months. (Since exchange controls were abolished, currencies including the US\$ and the £ sterling have **6)** ..... turn appreciated **7)** ..... 100% and then depreciated **8)** ..... more than 50% **9)** ..... the currencies **10)** ..... major trading partners.)

#### Translate: ♪♪ p. 144/2b

v zásadě	
to je trochu moc	
zaujmout pragmatický přístup	
je to sporné/pochybné	
zmírnit šok	
předvídaná nestálost v úrokových mírách	
je na tom něco poučného	
naučit se nereagovat přehnaně	
druhá nejlepší možnost	