U 26 - EXCHANGE RATES

1. Translate:

posílení měny –
pokles kurzu –
snížení oficiálního směnného kurzu –
zvýšení oficiálního směnného kurzu –
pevný kurz -
stabilizovat k/vůči –
volně pohyblivé kurzy –
řízené pohyblivé kurzy –
nestálé finanční trhy –
vyrovnat/přizpůsobit měnu -
zrušit systém směnitelnosti za zlato -
odchylující/lišící se pohledy na měnové kurzy -
odchylka (od) –
pohyb kapitálu –

1. V období mezi 1944 a 1971 měl americký dolar funkci vlastní směnky směnitelné za zlato.

2. Mnoho výrobců je nakloněno jednotné měně, ačkoli do jisté míry se lze chránit před výkyvy měny prostřednictvím futuritních kontraktů.

3. Investoři usilující o maximalizaci hodnoty svých aktiv se ženou za vysokými úroky nebo kapitálovými zisky, kdežto banky vytvářejí zisky z rozpětí mezi nákupními a prodejními cenami určité měny.

4. Od stabilizace vůči dolaru se upustilo v důsledku nedostatku zásob zlata.

5. Zastánci pohyblivých kurzů tvrdí, že volně pohyblivé devizové kurzy odrážejí paritu kupní síly, avšak podceňují účinek spekulace a zájem investorů o krátkodobé vývoje na peněžním trhu.

2. *Use synonymous expressions for the words in bold:*

   dirty floating exchange rates = ____________ floating exchange rates

   clean floating exchange rates = ____________ floating exchange rates

   exchange **control** = exchange ____________

   defender = ____________

3. *Fill in the gaps using the terms below.*

tight, purchasing power parity (PPP), commodity, appreciation, appreciate, flexible 3x, devaluation, overvalued, fixed 4x, revaluation, depreciation, undervalued,

- Exchange rates can be 1. ………………….. or ………………….. The value of a 2. ………………….. exchange rate is determined by the supply and demand for the currency in the foreign exchange market, the market on which currencies of various nations are traded for one another. The government sets the value of a 3. …….…….. exchange rate.

- The nominal exchange rate between two currencies is the rate at which the currencies can be traded for each other. A rise in the value of a currency relative to other currencies is called an 4. …………………..**;** a decline in the value of a currency is called a 5. …………………... (If the exchange rate is flexible, a 6. ………………….. monetary policy (by raising the real interest rate) increases the demand for the currency and causes it to 7. …………………... The stronger currency reinforces the effects of the tight monetary policy on aggregate demand by reducing net exports. Conversely, easy monetary policy lowers the real interest rate and weakens the currency, which in turn stimulates net exports.)

- The value of a 8. ………………….. exchange rate is officially established by the government. Such an exchange rate whose official value exceeds its fundamental value in the foreign exchange market is said to be 9. …………………... An exchange rate whose official value is below its fundamental value is 10. …………………... A reduction in the official value of a fixed exchange rate is called a 11. …………………..; an increase in its official value is called a 12. …………………... Because a 13. ………………….. exchange rate implies that monetary policy can no longer be used for domestic stabilization, most large countries employ a 14. ………………….. exchange rate. (Fundamental value of the exchange rate is determined by the market forces of supply and demand in the foreign exchange market in the absence of government intervention. A fixed exchange rate is the official value of the currency despite fluctuations in supply and demand.)

- A basic theory of nominal exchange rate determination, the 15. ………………….. theory, is based on the law of one price. The law of one price states that if transportation costs are relatively small, the price of an internationally traded 16. ………………….. must be the same in all locations. However, the fact that many goods and services are not traded internationally, and that not all traded goods are standardized, makes the PPP theory less useful for explaining short-run changes in exchange rates.

4. *Sum up the extract above in 5-6 sentences:*

Exchange Rates

EXERCISE 1

Match the questions on the left with the responses on the right:

	Questions		Responses
1.	Is it true that there was a time when you could go to a bank in America and demand gold in exchange for your dollars?	a.	Because in reality, they are often determined by the massive amount of currency speculation that goes on. Currencies appreciate or depreciate for reasons that often have little to do with the countries' economic performance or international trade.
2.	Who was he?	b.	"In God We Trust." Not "Gold"!
3.	So they could never change?	c.	Not who, what. Or where. It was an international conference held in New Hampshire in 1944. It fixed the value of the US dollar at 1/35 of an ounce of gold, and "pegged" or fixed most other major currencies against the dollar.
4.	But it's all different now?	d.	Oh sure, they can try to intervene on currency markets by buying or selling billions of dollars, or pounds, or whatever. But the speculators have much more money than governments.
5.	No, what?	e.	Only if they were officially devalued or revalued by the government or the central bank.
6.	So how does it work now?	f.	We have floating exchange rates, determined by supply and demand. Theoretically, the rates should reflect purchasing power parity – the cost of a given selection of goods and services in different countries.
7.	Why "theoretically"?	g.	Well, in theory, yes. That was the result of Bretton Woods.
8.	So there's nothing governments can do?	h.	Yes. The Bretton Woods system collapsed in the early 1970s because of inflation. There were too many dollars and not enough gold, so President Nixon ended gold convertibility. You know what it says on dollar bills now?

1	g.	2		3		4		5		6		7		8	

EXERCISE 2

Add appropriate words to these sentences:

1. Another verb for fixing exchange rates against something else is to . . . . them.
2. Increasing the value of an otherwise fixed exchange rate is called . . . .
3. Gold . . . . ended in the early 1970s.
4. The current system is one of . . . . exchange rates.
5. A currency can appreciate if lots of . . . . buy it.
6. In fact we have managed floating exchange rates, because governments and . . . . banks sometimes intervene on currency markets.

44 Exchange rates

A Why exchange rates change

An exchange rate is the price at which one currency can be exchanged for another (e.g. how many yen are needed to buy a euro). In theory, exchange rates should be at the level that gives **purchasing power parity (PPP)**. This means that the cost of a given selection of goods and services (e.g. a loaf of bread, a kilowatt of electricity) would be the same in different countries. So if the price level in a country increases because of inflation, its currency should **depreciate** – its exchange rate should go down in order to return to PPP. For example, if inflation increases in the US, the dollar exchange rate should go down so that it takes more dollars to buy the same products in other countries.

In fact, PPP does not work, as exchange rates can change due to **currency speculation** – buying currencies in the hope of making a profit. Financial institutions, companies and rich individuals all buy currencies, looking for high interest rates or short-term capital gains if a currency increases in value or **appreciates**. This means exchange rates change due to speculation rather than PPP. Over 95% of the world's currency transactions are purely speculative, and not related to trade. Banks and currency traders make considerable profits from the spread between a currency's buying and selling prices.

B Fixed and floating rates

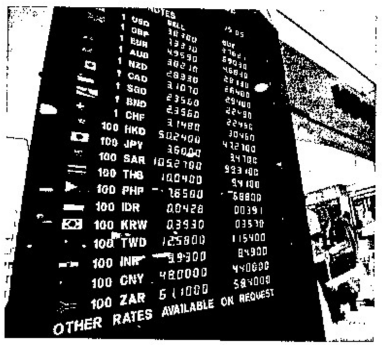
For 25 years after World War II, the levels of most major currencies were determined by governments. They were **fixed** or **pegged against** the US dollar (e.g. from 1946–67, one pound was worth $2.80), and the dollar was pegged against gold. One dollar was worth one thirty-fifth of an ounce of gold, and the US Federal Reserve guaranteed that they could exchange an ounce of gold for $35. This system was known as **gold convertibility**. These fixed exchange rates could only be adjusted if the International Monetary Fund agreed. Pegging against the dollar ended in 1971, because following inflation in the USA, the Federal Reserve did not have enough gold to guarantee the American currency.

Since the early 1970s, there has been a system of **floating exchange rates** in most western countries. This means that exchange rates are determined by people buying and selling currencies in the foreign exchange markets. A **freely floating exchange rate** means one which is determined by **market forces**: the level of supply and demand. If there are more buyers of a currency than sellers, its price will rise; if there are more sellers, it will fall.

Since the introduction of a **common currency** in 2002, fluctuating exchange rates among many European countries are no longer a problem. But the euro continues to fluctuate against the US dollar, the Japanese yen and other currencies.

C Government intervention

Governments and central banks sometimes try to change the value of their currency. They **intervene** in exchange markets, using foreign currency reserves to buy their own currency – in order to raise its value – or selling to lower it. The resulting rates are known as **managed floating exchange rates**. But speculators generally have a lot more money than a government has in its reserves of foreign currency, so central banks or governments only have limited power to influence exchange rates.



44.1 Are the following statements true or false? Find reasons for your answers in A and B opposite.

1 Purchasing power parity is a theory that doesn't apply in reality.
2 Inflation should lead to an increase in the value of a country's currency.
3 Speculators buy currencies when they expect their value to increase.
4 Speculators generally sell currencies if their interest rate rises.
5 Currency traders offer different buying and selling prices.
6 A lot more currency is exchanged for buying or selling goods than for speculation.
7 The Federal Reserve will no longer exchange US dollars for gold.
8 Most exchange rates used to be fixed; now they float.
9 If more people want to buy a currency than sell it, its price will go down.

44.2 Complete the table with words from A, B and C opposite and related forms. Put a stress mark in front of the stressed syllable in each word. The first one has been done for you.

Verb	Noun(s)	Noun for people	Adjective
	appreci'ation	–	–
		–	converted
depreciate		–	–
		–	interventionary
			speculative

44.3 Complete the newspaper headlines with the correct forms of words from 44.2 above.

1 **US inflation will cause dollar to .... , economists warn**

2 **Top economists say currency undervalued, call for government to allow it to 5–10%**

3 **Increasing currency .... is making exchange rates more volatile**

4 **Common currency: Economic consultant says .... pound to euro would cost British businesses £12bn**

5 Chinese experts say the .... betting on revaluation are threatening the economy

6 *Central bank not expected to .... in currency crisis*

Over to you

What has happened to the value of your currency in the past few years? What do you think were the probable causes of any changes?