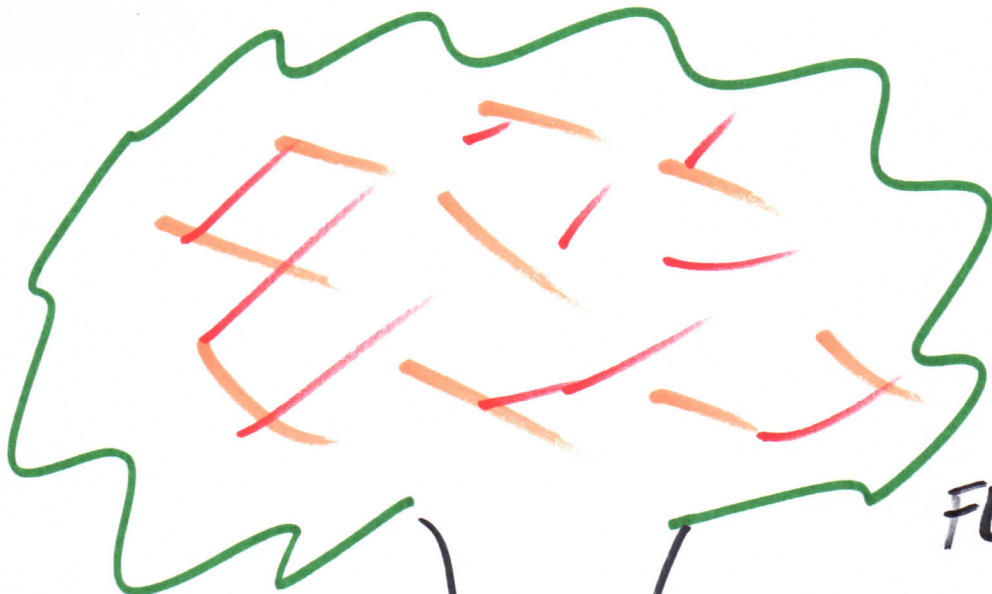




(CRAWLING
PEG = BUG → ~~FX~~

(CRAWLING
BAND = WORM → ~~FX~~

FLOATING
BUTTERFLY
FLOATING EX. RATE

FLY

~~FX~~ STRIM

NAIL = PEG, FIXED
RATE

NAILED = BANDED EX.
RATE

MANAGED
"DIRTY"
FLOAT

CENTRAL
BANK



WHY PEG AN EXCHANGE RATE?

① TRADE PRICE CERTAINTY

- OPEC

- CHINA

② EASE OF BUSINESS (REDUCE EX. RISK
TO INVESTORS)

- CARIBBEAN COUNTRIES

③ BORROW ANOTHER COUNTRY'S
MONETARY POLICY

- EL SALVADOR

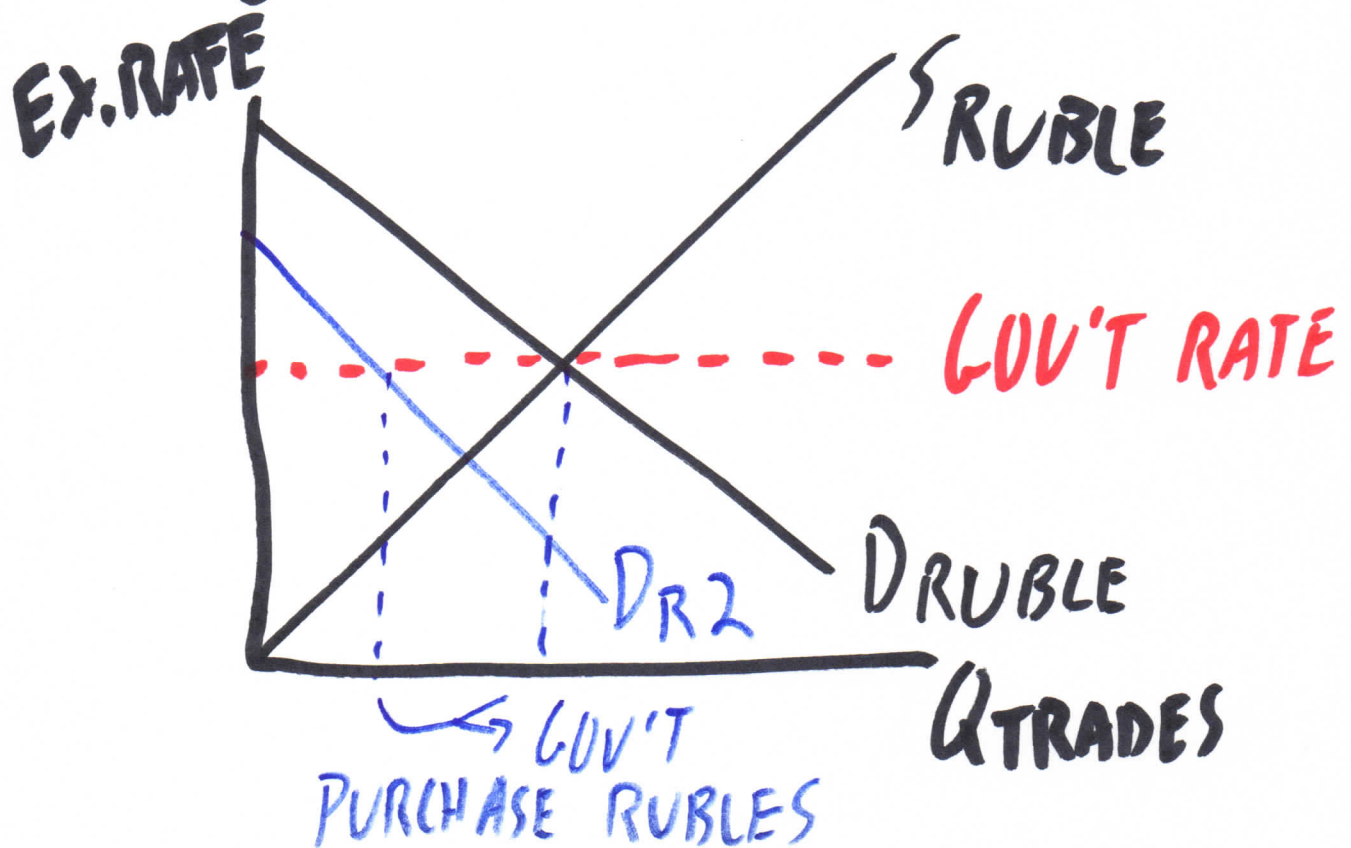
- ECUADOR

[CH. 20] HOW TO FIX EX. RATES

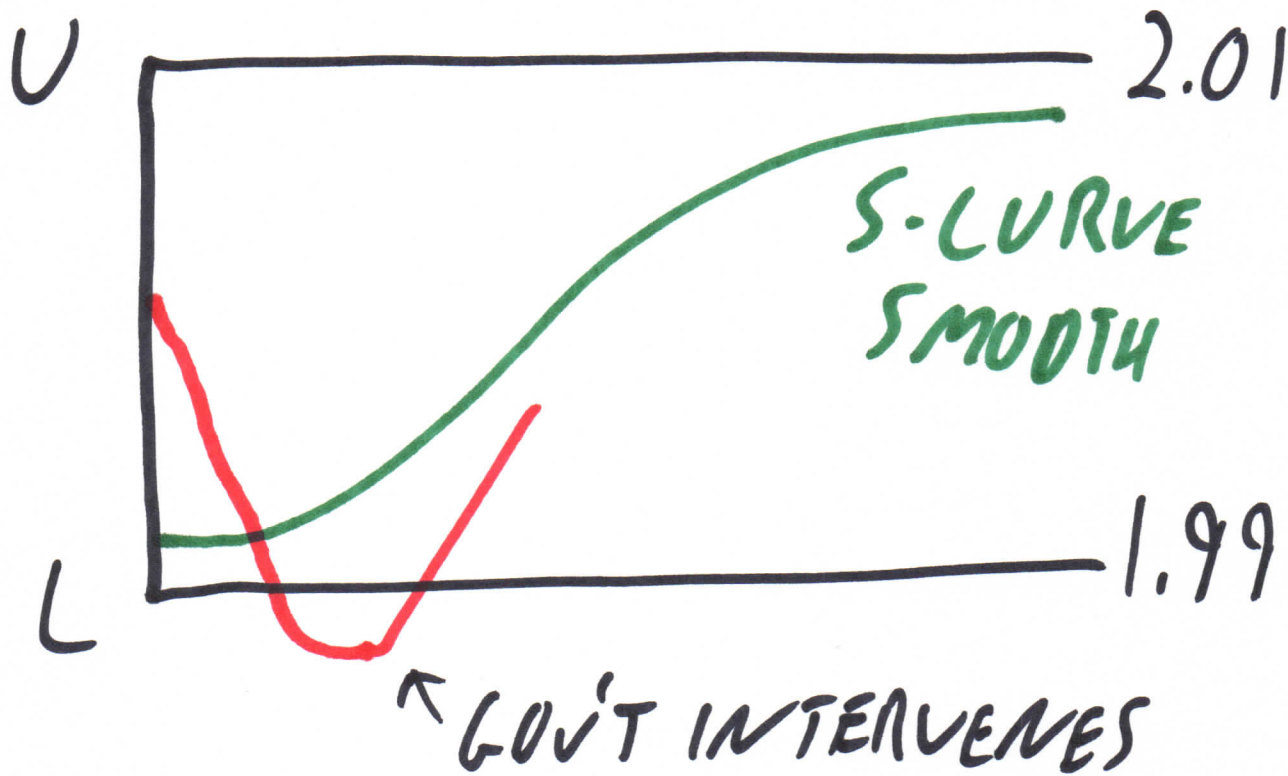
PEGGED OR BANDED?

① STERILIZED INTERVENTION

- CENTRAL BANK BUYS OR SELLS CURRENCY TO MAINTAIN PEG OR BAND
- MONEY SUPPLY NOT AFFECTED BY BUYING OR SELLING BONDS



② THREAT OF INTERVENTION



③ MOVE THE FIXED RATE

TO MANAGE A FLOAT "DIRTY"

- ① GOV'T RESTRICTS TRADE OR USE OTHER REGULATIONS TO MANIPULATE S+D FOR YOUR CURRENCY

- DIFFICULT

- ② GOV'T USES INTEREST RATES WANT APPRECIATION? $\uparrow$

- WORKS IN NON-CRISIS PERIODS

- ③ INFLATION TARGET

- POPULAR, NEW

- ④ FISCAL + MONETARY POLICY TO ADJUST CA, FA OR KA

- POPULAR