Read the article presented in the Learning Activity titled “Exchange Rate Regimes: Fix or Float?” and review the three broad categories of exchange rate systems that are presented.

First, the article classifies the regimes in a fixed exchange rate regime and a flexible exchange rate regime. These are then further classified into three smaller categories.

1. Hard exchange rate pegs. These are legally mandated regimes using another country's currency—this is called ”full dollarization.” This mandate of legality requires a central bank to employ a “currency Board” whereby they retain foreign assets at an amount equal to its monetary circulation of local currency and reserves. In answering the question of who uses this regime, some of the known countries which employ the hard exchange rate are-Panama--using the U.S. dollar for dollarization, and the Hong Kong currency board.
2. Soft exchange rate pegs. Currencies use another currency as an anchor. They normally employ a narrow range of fluctuation against their currency anchor usually +/- 1% to +- 30%. The fluctuation is a result of the differences in inflation rates across countries at any giving time. Some known countries that employ this regime are Hungary, Costa Rica, and China.
3. Floating exchange rate regimes. Floating exchange rate regimes are mainly determined by market fluctuations. Floating regime countries allow their central banks to control inflation through intervention. By purchasing or selling foreign currency and or local currency, or by manipulating the interest rates on money central banks can effectively control local currency circulation. However, those countries that are very successful using this regime such as New Zealand, Sweden, Iceland, the United States this intervention is rarely performed. The downside of such a regime is when ill properly managed hyperinflation, such as Venezuela, may result in the imploding of the system.

From the reading, select one country from each of these categories and explain why it has the exchange rate system that it currently utilizes.

1. Panama’s regime is the result of the influence of U.S. President Theodore Roosevelt who convinced US Congress to proceed in the work of creating a canal across the country. This occurred while Colombia was fighting the Thousand Days' War in 1903. In 1904 the local currency, the Balboa, was created and tied to the United States dollar, which carries the same value dollar for dollar.
2. Please note that the paper is outdated. Costa Rica moved to the Floating exchange rate on Feb 2, 2015. According to Mile(2003) in a thesis, he writes that since 1946, Hungary engages in a centrally led and very restrictive international economic policy which segmenting the domestic and world markets. In creating a state monopoly on foreign trade and foreign exchange transactions the nationalization process moved forward in all strategic industries. Since then Hungry’s National Bank(NBH) has held monopoly power over all cross-border credit relations. The exchange rate is based on the price of gold. In 1974 Hungry introduced Foreign Exchange Codex II, which lead to reevaluations in 1976 – 1979. Then in 1982 Hungry entered into the International Monetary fund which resulted in significant depreciation. However, Mile feels that though Hungry has successfully navigated the “Soft Regime” they are soon to change as it attempts to enter into the European Union Grow (Mile, 2003).
3. The US. has remained the best example of the floating rate exchange. At first US currency was mainly commodes such as tobacco and beaver pelts, then slowly began using other National currency such as Mexico and Britain. One might say at this time the US was classified as a Hard Peg exchange. Then at the time of the revolutionary war, Congress began to print its own money, which was based on the price of metal much like Hungry’s is today. This had its hay day with the silver certificate that required every dollar to be backed by an equal amount of precious metals in a vault somewhere. Since this is all common knowledge, I will do the unthinkable and reference Wiki (2019). With the crash of the Bretton Woods fixed exchange rate things changed dramatically in 1973 and although it was thought that the US and other nations that used the US dollar would adopt one of the alternative Soft regime structures instead, they entered into the floating rate system (Flatworld, 2019). Since that time there have been ups and downs, but the US remains the world trendsetter for the floating exchange rate regime.

Also, explain if this system is effective for this country or if it would be improved by moving to another category. Use examples, research, and terminology from your reading to support your rationale.

1. Panama, this country is using this effectively as they lack the recourses or structure to move to another regime. Panama's monetary system has benefited. Hungry has enjoyed almost automatic monetary and price stability while International transactions have also been facilitated by the use of the United States dollar.
2. Hungry is actively seeking to enter into the European Union according to Mile (2003). This may require them to aspire to entire into the floating system. This may not work as the geographic area is in constant unrest due to the continual migration of Islam, which is a government and religious ideology.
3. The US is setting the pace in its arena. As the Trump administration continues its efforts to “Make America Great Again,” GDP is up, and unemployment is at a 48 year low according to News NBC (Reuters, 2018). Why change what’s working.

References

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