With the growing internationalization of economies and the gradual increase in the implementation of floating exchange rate regimes, more attention has been paid to monetary policy transmission, which operates through exchange rates and effects on net exports. Both for developed and developing countries, one of the most important variables that affect the basic economic indicators of open economies has been the changes in exchange rates. In this context, monetary authorities define real exchange rates. Factors which influence the exchange rate and the effect of appreciation and depreciation in value of currency. If the present exchange rate is £1 = $1.42, this means that to go to America you would get $142 for £100. Similarly, if an American came to the UK, he would have to pay $142 to get £100. Although in real life, the dealer would make a profit. Many East Asian economies fixed their exchange rates at undervalued real parities, thereby fostering exports and contributing to the Asian growth miracle. In Latin America, Brazil adopted a fixed exchange rate as part of a nominal anchor strategy combating high inflation.

This paper explores the economics of this debate. It is critical of the mainstream debate over choice of exchange-rate regime that has been conducted with little attention to the issue of capital mobility (see, for instance, Chang and Velasco 2000; Frankel 1999). Capital mobility impacts critically exchange-rate regime performance, and choice of exchange-rate regime and degree of capital mobility must, therefore, be viewed as a compound policy choice. The studies in this book deal with the determination of foreign exchange rates and the characteristics of the foreign exchange market. Analysis is made of flexible exchange rates through an approach developed by the authors, called the ‘asset-market approach’. Theory is combined with practical application in a clear concise way that will be understood by readers with a basic understanding of economics.

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