

Discuss whether a
government should
be more concerned
assignment



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Discuss whether a government should be more concerned by an unstable foreign exchange rate or by an unstable domestic price level . Ere essay:

Foreign exchange rate means the rate at which one currency can be converted into another currency. The exchange rate can be adjusted in two ways, by automatic correction or government devaluation.

Price level means the general price of goods and services in a country. It's linked to many factors like the rate of inflation, economic growth and so on. An unstable foreign exchange rate shows that automatic correction occurs a lot of time, frequently. Automatic correction is to correct current account deficit (the total inflow of current items exceed the outflow of current items Thus, an unstable foreign exchange rate may probably means the current account appears to be deficit all the time.

A constantly deficit means the exports are less competitive in the foreign markets and it will lead to close down of firms, rise in unemployment, decrease in income, eventually leads to living standard decrease. Also the government will need to use foreign reserves to correct deficit, in this case, the reserves will probably be used up. Government will then try to borrow money to cover deficit and if it fails to pay back, credit crisis may appear. An unstable domestic price level shows the prices of the domestic goods and services change rapidly.

It can either be increasing or decreasing rapidly. If it's increasing Chick means the inflation rate is very high and unanticipated. It will then cause many problems like people's power of purchasing rapidly decreases since prices go up quickly. And the companies will lose a lot of profits due to

people's lessen demand. Also, the exports will become more expensive and less competitive, current account deficit occurs and problems state above rise. But if it's decreasing rapidly, there will also be some problems.

Companies will lose their profits a lot due to the continually decrease in prices.

And they will probably reduce production costs by firing employees. The unemployment will then raise and people's living standards " Ill decrease since disposal Income reduces. Total output (GAP) will decrease a lot and economic recession may appear. Above all, both of the two phenomena will cause serious aftermaths and It's hard to tell the government should be more concerned with which one. The government should carefully deal with the two situations by using qualified polices. Ay Separately into another currency. The exchange rate can be adjusted in two ways, by automatic and services in a country.

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