Take is known as an "adjustable peg”. in

Take the case of a fixed rate. By nature it is also a “ pegged rate”. However, it may be revised to tackle a situation of a fundamental disequilibrium, the metamorphosis being variously referred to as an “ adjustable peg”, a “ crawling peg”, a “ moving peg”, or a “ sliding peg”, etc. Thus, if the rate is revised “ infrequently” and by “ small margins”, it is known as an “ adjustable peg”. In case, it is revised more frequently but by “ small margins”, it may be termed a “ crawling peg”; and if in addition its movement is in the same direction, it is known as a “ sliding peg”. Note that in all the varieties of revision mentioned in this paragraph, the revision is brought about by the authorities and not by market forces.

Free or Floating Rate: In contrast with the extreme of “ fidelity” of exchange rate, there is the other extreme in which it is determined by an unrestricted play of market forces. In practice, however, exchange rate movements are always subject to some degree of regulation and intervention by the authorities. Therefore, it becomes a matter of judgment as to the extent to which the market forces should have a free play for the rate of exchange to be termed a “ free” or a “ floating” one.

It should be noted that, by its very nature, a “ free” or a “ floating” rate is also a “ flexible” one. These terms are also used to represent the extreme situation when official regulation or intervention is totally absent. When that is so, the authorities commit themselves not to regulate the market in any form. Features: i. A full-fledged “ free” exchange rate is normally accompanied by full convertibility of the domestic currency. Unrestricted inflow and outflow of funds is allowed in response to differentials in interest and rate of exchange, etc. ii. It is a self-adjusting rate.

Theoretically, the authorities need not intervene at all. iii. However, most of the time, it is generally believed that though rate of exchange should be able to adjust in response to market forces, the variations in it should not be disruptive in nature. For this reason, the authorities think it necessary to keep a ‘ watch-full eye” on the market behaviour (“ monitor” the market) and take corrective measures to the extent needed. This is done to (i) prevent violent, dis-orderly, wide, and speculative fluctuations in exchange rate, and to (ii) protect domestic economy from the spill-over effects of a serious disturbance in the foreign exchange market, perhaps originating in ‘ rest of the world. For this reason, the authorities usually intervene swiftly to ensure that exchange rate remains “ stable”.

iv. It is possible that free rate of exchange may succumb to speculative forces and flight of capital and thereby cause a financial crisis and large scale disruption.