Analyze

Finance

International Business Finance 9nstitution 2A Currency unions are significant in economies because they help in a number of ways. For instance, currency unions facilitate the reduction of transaction costs by traders and travelers across the different countries. This happens because it is cheaper to do business with a common currency instead of converting them into other denominations (Figge, 2010). Another pro of currency unions is that they might decrease interest rates, especially in transactions involving several countries. For instance, the variations experienced in currency values affect the interest rates in different countries. In this regard, it becomes less expensive to settle sovereign debt and penetrate integrated financial markets (Figge, 2010). Similarly, currency unions also help to promote trade liberalization because of the uniformity in the exchange values. For instance, during global inflationary periods, countries worst hit do not suffer from financial losses when trading with their partners (Figge, 2010).

However, challenges also occur due to currency unions, sovereign debts and integrated financial markets. For example, there is the loss of an independent monetary policy, which affects the moderation of demand stocks and curbing of inflation rates (Figge, 2010). This implies that a country may be unable to execute monetary policies during inflation because it might affect international trade. It is apparent that introducing other monetary policies might involve the formation of a central bank to oversee the process. Another disadvantage is that currency unions may have a negative influence on developing countries when making investment decisions (Figge, 2010). This is because it limits the budget of the developing countries that cannot raise the required funds to initiate investments in the developed economies.

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The evolution of money involves the development of a medium of exchange unit during transactions. The first transaction was barter trade, which entails trading goods and services for other similar commodities. This implies that one would exchange his goods with other goods he needs or suits his wants. One of the cons of this system is that it enabled people to get what they wanted easily. This is because the two parties would agree on the commodities to exchange without problems (Davies & Julian Hodge Bank, 2002). Alternatively, it faced the problem of double coincidence of requirements in which one party had to fulfill the wants of the other. For instance, a person who had goats and wanted grains would not do transactions that do not match his requirements (Davies & Julian Hodge Bank, 2002).

Rocks also served as money in the ancient years. For instance, there were some circular stones found on Yap Island that were instrumental for business purposes. One disadvantage of the rock money was its bulkiness, which hindered people from using it for other trades like paying of dowry or daily requirements. However, its main advantage is that it helped in conducting businesses that involved local villagers (Davies & Julian Hodge Bank, 2002). Bimetallism system considered the use of both gold and silver as the unit of exchange. This happened because the two metals had fixed quantities that allowed for a standard exchange rate. The advantage of this system is that it had no restrictions on the applications of either metals and offered a liberal market for smooth operations (Davies & Julian Hodge Bank, 2002). Alternatively, the main problem was that each nation had its own exchange rate between the two metals and this varied across the countries. As a

result, the gold system was adopted to facilitate stability and uniformity in the exchange rate. The current flat system comprises the use of currency unions in which regions adopt a single currency for international and local transactions. The main advantage is that it enhances international integration through a strong currency. However, the system still faces opposition from the developing nations that cannot keep up with the rising inflation rates (Davies & Julian Hodge Bank, 2002).

References

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