International finance assignment

Business

Why must a country's currency be devalued? What is failing in the economy? Devaluation is the action of a government or central bank authority to drop the spot foreign exchange value of a currency that is pegged to another currency or to gold. Countries occasionally devalue their own currencies as a result of persistent and sizable trade deficits. They intentionally devalue their currencies in an effort to make their exports more price-competitive on world markets Competitive devaluations are often considered self-destructive, however, as they also make imports relatively more expensive.

There are many reasons that a country would devalue their currency and many countries have used this method to meet some economic goal. Devaluation could be used to discourage importing from other countries. If the currency is devalued in Venezuela other countries products are more expensive to purchase, so the Venezuelan population will not demand imported Items. Another objective of devaluation would be to Increase exporting. Devaluation makes the products of the country cheaper and other countries will want more of them.

Devaluation could also be used to correct a negative balance of payment. The value and demand for imports needs to be greater than the value and demand of exports. So by devaluing the currency a country can Increase demand for their products, producing an In-flow of cash. So the theory behind devaluation would be to make local goods cheaper for exporting and produce and bring money back into the economy, to bring an equilibrium to the market, encourages family members to send money to their home country, and Increase Investor Interest.

As Venezuela learned there are negative effects to devaluation such as trade Is one sided and locals can't always make ends et, devaluation may cause other countries to follow and there is no winner, the country will not be able to meet their foreign debt obligations, people will lose faith In a cure to the problem, devaluation brings Inflation, and It Is a short-term fix. Devaluation Is used usually when they have tried everything else and there Is no other option, with occasions where they are forced to devalue to retain a certain standard of living and provide products and services to the people.) What benefit did the Venezuelan regime in power gain from the repeated devaluation of the Olivia? As stated In the case, the mall objective was: Whoever, In one or multiple transactions, within one calendar year, without intervention of the BCC, buys, sells, or in any way offers, transfers, or receives foreign currency between an amount of 10, 000 dollars to 20, 000 dollars, of the United States of America or their equivalent. will be sanctioned with a fine valued at double the amount of the operation, in Bolivar's. Each time the Bolivar was devalued the government gained revenue to spend internally on the land and people of Venezuela.

They could build, provide deed services, pay competitive wages, pay foreign debt, increase the sale of oil, and Increase the certainty of the people. The Shave regime, has repeatedly used the devaluation of the Bolivar to Increase the domestic monetary resources It earns from its oil exports. Each dollar of oil export revenue generates more Bolivar's or 1 OFF this you will know whether the analysts predicting the future of the Bolivar were correct. How did they do? The analysts in this situation were correct on their prediction on the future of the Bolivar. In the closing paragraph.