Module 1 case study

Business

Nicole Hancock Fin501 International Finance Module 1 Case Study 1 1) Some people are arguing that the Chinese Yuan Renminbi (CNY) could take over the US dollar.

Based on your analysis and findings, will Renminbi replace the US Dollar as the world's most popular currencies to hold? Please explain your reasoning. While China is a quickly growing country and becoming much more important in the global economic realm in my opinion I do not believe that their currency the Yuan Renminbi will take over the US dollar. While countries are taking note that China is growing they are now accepting and able to hold renbinbi since August 2010 (Frankel, J. (2011). Some of these countries are Mongolia, Pakistan, Thailand, and Vietnam.

Some of the growth might not be the most reliable since the Chinese government is who controls the Yuans worth. The test that will be told over time depends on four components: scale, liquidity, stability, and security. China lacks in all four areas as well as one area that leaves the world holding their breath. China is being watched to see what type of financial controls they will have on nations that they have disagreements with. I do believe that China is gaining and the Yuan is a powerful currency in it's own right but the bottom line is the American dollar has the stability and confidence that people in all nations can agree is there.

2) Is the exchange rate of the Mexican Peso (one of the emerging market currencies) determined in a fixed or in a floating exchange rate system? Please explain your reasoning. While looking into some literature about the Mexican Peso and it's turbulent past a quote that struck me is such. " In

reality, no currency is wholly fixed or floating. In a fixed regime, market pressures can also influence changes in the exchange rate. Sometimes, when a local currency does reflect its true value against its pegged currency, a “ black market”, which is more reflective of actual supply and demand, may develop. A central bank will often then be forced to revalue or devalue the official rate so that the rate is in line with the unofficial one, thereby halting the activity of the black market.

(http://www. investopedia. com/articles/03/020603. asp#ixzz1izd9EqWa) Even though this is true Mexico has a floating currency in which the central bank of Mexico sets the inflation rate goal. The central bank of Mexico accounts for most of Mexico’s economic and currency rates. There are people who wish to go to a more US based system but it’s often met with discouragement.

The economy of Mexico for now is largely if not completely set by the central bank of Mexico which has as its primary objective maintaining stability in the purchasing power of the peso. It sets an inflation target, which requires it to establish corresponding quantitative targets for the growth of the monetary base and for the expansion of net domestic credit. The central bank also monitors the evolution of several economic indicators, such as the exchange rate, differences between observed and projected inflation, the results of surveys on the public and specialists’ inflation expectations, revisions on collective employment contracts, producer prices, and the balances of the current and capital accounts.) Is the exchange rate of the Indian Rupee (one of the emerging market currencies) determined in a fixed or in a floating exchange rate system? Please explain your reasoning. The Indian Rupee has had many changes and been a both fixed and floating currency in the past. It plays a huge role because both Nepal and Bhutan peged their currency to that of the rupee.

Since 1993 India has followed a floating exchange rate system. It trades freely and is set by market forces. The Bank of india often sets target rates and buys foreign currency in order to meet that target.) To what extent is the Emerging Market (EM) Currency trading risky? Please explain your reasoning. It seems that in a time of uncertainty the Emerging Markets are a little less attractive since they lack something that most investors really like…. liquidity.

They seem less attractive than hedge funds, mutual funds, etc. Another issue is that with currencies such as Eurozone.. when things start to look like they are going sour the first thing people do is sell off their emerging market investments. It’s a very violent market to invest in such a risky situation. Another issue such as emerging markets in China is that the inflation rate is regulated by the government.

It’s not necessarily a risky trait to have in n emerging market but it’s also harder to predict a downward spiral as well. It seems as of now investors are better off in more traditional currencies. With the Erozone for example it seemed like a great idea but when things go bad people aren’t comfortable holding on to assets that they aren’t familiar with or comfortable with.) Based on your analysis and findings, what would you recommend to international market currency investors? If you don’t have the money to invest, don't. If it's an investment that you are looking for a quick return and are able to lose the capital you put in then I say go for it.

If you are investing for something such as a college fund or retirement fund then an emerging market isn't for you. The emerging market game is something risky and uncertain… it needs to remain an option for people who have the ability to ride it out or lose.) What do you perceive you have learnt in Module 1 Case Assignment? Please provide your evaluation of the Module 1 Case Assignment in brief. This case study really opened my eyes to the idea of a fixed vs floating markets. The way different countires strive to overcome the dollar as the main currency is interesting as well.

To look at how other countries regulate their money, and try to make it more valuable is something to really take a look at. Just because you have a pice of paper that is seeminly worth a value it's nothing unless you an liquidate that currency in a form of an asset.