

International finance

Finance



International Finance Name: Course: Institution: Tutor: Date: International Finance Question 1 The exchange rate used in Taiwan is the fixed exchange rate also known as the foreign exchange reserves. This means that the government has established the exchange rate at a certain level and it implements particular actions in order to maintain it. This is through the central bank's monetary policies. The government of Taiwan sort to use this form of exchange rate in order to stabilize the stock of reserves thus preventing the repercussions experienced after China's attack.

The country currently holds reserves in dollars in order to avoid the shrinking of the reserves. The reserves are worth \$385 billion. Question 2: A I would change my assets to be in dollars. This is because the dollar is stronger than the Japanese yen. However, the Japanese yen seems to be gaining strength with time. If this continues for a considerable period, the yen may have the same spot exchange rate or it may be slightly lower than the dollar but it may not be stronger than the dollar. Therefore, it is advisable to change the assets into U.

S. dollars. Question 2: B I would still change all my assets into U. S dollars.

When a dollar exchanges at 110 yens, the more the dollars the more yens one will likely acquire. This increases once asset value when they turn to yens. It is therefore advisable to exchange the assets into the U.

S dollars so that one can increase the asset value in the 180 days. Question 3 For a market to maintain its equilibrium, a country is advised to apply the managed flexible exchange rate. This exchange rate allows the forces of demand and supply to adjust due to the demand and supply engagement.

However, the government may intervene if these forces take the rates to one extreme. It also allows the government to control the balance of trade and the balance of payments.

By allowing the forces of demand and supply to take their course and the intervention of the governments through the central bank, the exchange rate equilibrium is maintained.