

# The saga of the venezuelan bolivar essay sample

[Economics](#), [Currency](#)



1. What is a Parallel Currency Market and why would one exist? The Parallel Currency Market is an unofficial foreign-exchange market to trade home currency for foreign currency in the state of foreign government bonds. Although often priced unfavorably, there is still a strong existence and high demand for such a market due to restrictions and limited access in the home country on trade of foreign currency.
  2. During the time period of the case, how many devaluations of the Venezuelan currency were there? There were a total of four devaluations during the time period of the case.
  3. What causes a country to devalue its currency? Are there failures in the economy and what would they be? A country must devalue its currency if it cannot maintain the fixed exchange rate. In order to maintain this rate, a country must use its foreign currency reserves to buyback home currency. In this case, the Venezuelan government is unable to do so, thus it must devalue its currency to a level in which the buyback is affordable. Possible economic reasons could be a budget deficit or attempts to boost exports and increase revenue.
  4. What benefits did the Venezuelan regime in power gain from the repeated devaluation of the Bolivar? The Chavez regime used the devaluation of the bolivar to increase the domestic monetary resources it earns from its oil exports. Each devaluation generates more bolivar per dollar, providing more domestic spending for the Venezuelan government.
  5. What has happened with the Bolivar since the case was written? What is the official rate now? What is the rate in the parallel market? What do you
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think the Bolivar/US dollar rate would be if the Venezuelan government let its currency float? The analysts' predictions were basically on the mark. The predicted devaluation was on Feb. 11th 2013, increasing the fixed exchange rate from 4.30 bolivars to the dollar to 6.30 bolivars to the dollar, only 0.2 bolivars per dollar short of estimates. The official rate as of today is 6.284 bolivars to the dollar, whereas the parallel rate is around 8 bolivars per dollar. Based on the credibility of the Venezuelan government and its continuous financial deficit, it is not a good idea at the moment to switch from fixed to floating. Because of the recent devaluation earlier in the year and rumors of further devaluation, the supply/ demand model that floating rates depend on will not be in their favor. But if the government were to improve their current conditions, which would definitely boost confidence from investors, the floating regime would prove to be more efficient in the long run.