International financial system essay examples

Business, Marketing

The foreign exchange market is a perfectly competitive market. The market has characteristics of a perfectly competitive market. In the first place, there are many buyers and sellers. This means that one buyer or supplier cannot affect the price, demand, or supply of any currency in the market. Forces of demand and supply are involved in determining the price of a currency. There is perfect information in the market since people know the prices of currencies by looking at the prices that are posted online. The buyers cannot therefore benefit by buying from certain sellers. The sellers cannot also exploit the buyers due to lack of information. The sellers have the freedom to enter or leave the market. There are no controls to entry in the market and every participant makes profit without the need of lowering prices. The governments rarely intervene in these markets. All these features show the characteristics of a perfectly competitive market. This is why it can be concluded that foreign exchange market is a perfectly competitive market. The separation of investment banking and retail banking is likely to bring about stability in the financial system. There are various reasons why the conclusion is arrived at. In the first place, a crisis in one of the sectors does not affect the other sector. When there is a crisis in retail banking, the problem is not extended to investment banking when there is full separation of the two sectors. This means that the public remains confident with the unaffected sector (investment banking) when the other sector (retail banking) is dealing with its problems. The government and the affected sector have greater confidence of dealing with their crisis provided only one of the sectors is affected. The problem is therefore addressed with confidence to bring about financial stability again. Whenever there is a crisis, proper tools that are effective in a certain sector can be used effectively to deal with the problems if there is a complete separation. The problems that affect retail banking leading to crisis cannot be solved using the same tools that are usually used in investment banking. Use of the correct tools to deal with the problems of each division is likely to bring about a stable financial system. Generally, the separation of the investment banking and retail banking can bring about confidence in dealing with the problems affecting a certain sector. This can help create stability in the financial sector.

Foreign exchange and debt crisis have affected developed and developing countries on several occasions. These crises have negative effects to the economy, and therefore the need to mitigate the crisis to eliminate the negative effects. In the first place, the government should act as a guarantor of all loans that are issued to the public. This can help avoid unnecessary lending that can lead to a debt crisis. Debt crisis can also be mitigated by ensuring that the debts that are borrowed are used in cash generation projects. Another mitigation strategy is ensuring that all the borrowed funds are used in an appropriate manner and can be accounted for. In this case, organizations borrowing funds when they need them and use them appropriately so that arrangements are made to repay such loans. The government should also ensure that short-term loans that are unnecessary and with huge rates of interest are avoided. In mitigating foreign exchange crisis, the government should also ensure that it is able to supply its currency to meet the excess demand, and when there is a surplus of its currency, government should be able to buy to ensure stability of its currency, hence avoiding currency crisis. Generally, many policies should be adopted to mitigate debt and foreign exchange crisis.

Derivatives, Eurocurrency and capital markets were started with certain aims that are similar in a way. They were all started to ensure that companies are able to easily access funds that are important in the expansion of activities. Many companies are able to access funds that they need for their daily activities due to these markets. Access to funds means that many Companies grow hence creating competition in the market. These markets were also started to ensure that companies are able to diversify their risks. Therefore, losses do not affect their activities in extreme ways. This gives organizations the confidence to engage in risky investments. This creates competition in risky businesses that have huge returns. The presence of these markets has led to increased competition in the real economy. The capital markets, Eurocurrency, and derivatives have facilitated competition between banks up to the international level. The banks are forced to find new and cheaper ways of financing for companies. They have also facilitated the mobility of capital between different countries, thus enhancing competition between countries. Generally, capital markets, Eurocurrency, and derivatives have facilitated competition in the real economy.

Reference list

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