The united states dollar

Ever since the euro was introduced as a cash currency in 2002, the United States dollar has steadily depreciated in value. United States budget deficits continually increased, which resulted in the euro beginning to rise in value.

By the end of 2004, the dollar had plummeted to new lows versus all major currencies. In the first quarter of 2004, the dollar recovered minimally against the major currencies, taking advantage of higher interest rates imposed the Federal Reserve. However, all profits were lost in the third and fourth quarter of 2004. 2005 was the only year since 2002 in which the dollar actually made progress versus the euro. When the Federal Reserve reduced interest rates on September 18, 2007, the dollar's value dropped significantly to new record lows.

Additionally the euro's value increased considerably. Many economists suggest that its decreasing position as the world's reserve currency is also a cause of the dollar's spiral downward. Moreover, the Chinese yuan is becoming even more valuable which is not good news for the dollar. This could decrease its value significantly.

In response to the decrease in value of U. S. currency, officials in China indicated plans to diversify their $1. 45 trillion reserve. Most recently, in early March 2008, the dollar descended to a new low point, after dreary reports on the U. S.

economy and the prospect that the Federal Reserve will continue slashing interest rates. The weakening of the United States dollar doesn't necessarily mean that others will gain. This could potentially weaken any economy that relies on exports from the United States. The real danger is that the dollar will weaken to the point that there will be an inclination to hold fewer dollars, which would further wear down the dollar’s value. The U.

S. economy faces growing problems that reflect the diminished value of the dollar. The United States keeps up a sophisticated military with a global range which is very expensive. Governmental policy also focuses on maintaining consumer spending. This accounts for 70 percent of GDP.

Balancing both of these dynamics is very difficult. The military part of the equation increasingly weighs on the United States economy. The consumer spending portion has challenges such as household debt, an absence of fiscal policies in Washington, and a meltdown in housing. Consumers depended on home equity and low mortgage rates to finance their ongoing shopping binges. America’s household savings were driven into negative territory from the purchase of many imported goods.

The sustainability of the US economy also hinge on the continual flow of foreign investment into US Treasury, federal agency and corporate bonds. These foreign acquisitions keep the credit flowing to consumers who purchase Asian and European merchandise. Despite worries over the decline of savings in the US and the extended period of record deficits, foreign central banks had an interest in defending this system, even with a steadily declining dollar. In a sense, foreign investors grant American consumers with cheap funds to buy their products – an ongoing cycle that maintains economic growth in the US and elsewhere. The declining dollar is a developing point of anxiety for many major international industrial companies that either export to the U.

S. or assess their products in that currency. International businesses are starting to change from payments in the U. S. dollar to other currencies, in particular the euro, as the doubt surrounding the dollar makes it less appealing. Works Cited

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(2008, April 10)