Floating Pegs and Managed Floats

The Basic Assumption

$D_{EB} > S_{EB}$

$D_{EB} < S_{EB}$

Two Versions

• Floating Peg
  – The government maintains a fixed exchange rate, but it changes from time to time.
  – 1 EB = $1 but over the year we will adjust the rate to 1EB = $0.95

• Managed Float
  – The EB-Dollar rate floats but the government intervenes to keep it about 1EB = 1$

Speculator Heaven

• Suppose $D_{EB} < S_{EB}$ and the government tries to maintain an exchange rate.
• Remember the mantra of speculators:
  – Heads I win, tails you reimburse me for my losses.
  – George Soros.

A floating peg and a managed float presents exactly the same opportunities for the speculators.
End