

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

Two Versions

- Floating Peg
- 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.



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

End

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