Exchange Rate System

① Fixed (Pegged) System : EXR is determined by the central bank (Fixed at a particular rate)

② Adjustable Pegged System : Central Bank fixes EXR at a specific rate ; but it explicitly recognizes that in some circumstances, it may adjust EXR.

③ Managed Float : The central bank intervenes the Ex mkt to maintain EXR within a specific range.
(e.g. 30.5 ± .5 baht / US\$)

④ Floating (Mkt - determined): EXR is determined by demand and supply.

Evolution of EXR regimes in Thailand

1963 : Floating

1973 : Fixed (Pegged) @ 20.8 Baht/US$

1978 : Fixed with a basket of currencies.
(US$, Pound, Yen)

1984 - 1990 : Revised the weight of basket of currency twice
→ Targeting EXR by using Effective EXR (incorporating inflation, Purchasing Power Parity)

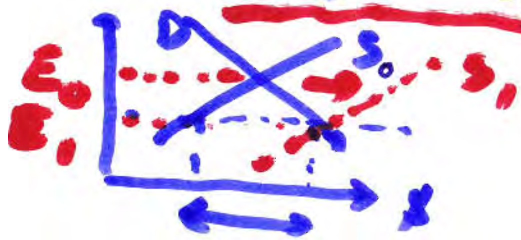
1997 : Floating

2000 - present : Managed Float

Tools for Exchange Market Intervention

① International Reserve (accumulated surplus of foreign currencies)

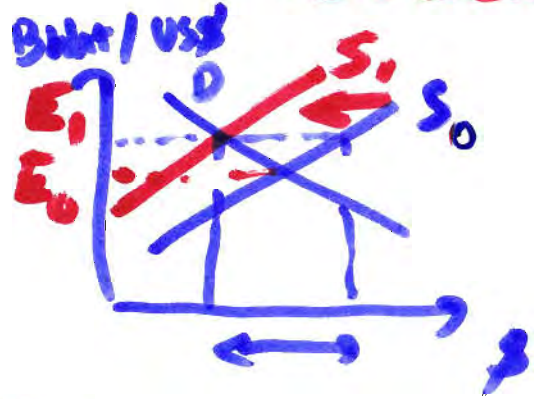
Excess Demand for US\$: Central Bank sells US\$



Mkt-determined → E_0

Intervened rate → E_1

Excess Supply of US\$: Central Bank buys US\$



Mkt-determined → E_0

Intervened rate → E_1

Central Bank intervenes the EX Mkt to maintain the EXR or to smooth the fluctuation of EXR.

② Trade Policy (Export or Import) Demand for US$ ↓

Excess demand for US$ → Influence import ↓
→ Promote export ↑ → Supply of US$ ↑

Excess supply of US$ → Influence import ↑ → Demand for US$ ↑
→ Promote export ↓ → Supply of US$ ↓

③ Regulation or Direct Control

- Imposing law or the direct control on the inflow and outflow of foreign currencies.
  ⇒ Tax on short-term investment of foreigners
  - Thailand (2006) | Chile (1998)

Introduction to International Trade

Reasons for trade

1. Production cost of the same commodity in each country is not equal
2. Comparative Advantage
3. Unique location / resoures / technology.

Comparative Advantage:

A country that can produce a commodity with the lower cost when compared to those in other countries.

→ Price of inputs?

Absolute Advantage:

A county that can produce a commodity with the less quantity of inputs when compared to those in countries.

→ or better technology / skill

Gains from International Trade

1. Welfare of consumers
   - They can consume products with lower prices
   - They can consume better products.
2. Economies of scale
   - lower prices of goods [from lower cost of production]
3. Technology transfer
   - Transfer of production technology

Trade Barriers (Imported goods cause damage to domestic producers)

↓

Gov't tries to protect local business by creating trade barriers.

① Tariff (import tax)

↳ Prices of imported goods ↑

② Non-Tariff Barrier (NTB)

↳ Standard of Production

↳ Environmental Issues (CO_2 ; Climate Change)

Free Trade Agreement (FTA) → lower or eliminate the tariff → AEC : Tariff → 0 % for member countries.

Trade Agreement

(1) Bilateral Agreement → FTA (Country A and Country B)

(2) Multilateral Agreement
(Among members of group)
↓
ASEAN
EU