

Exchange Rate Systems

The Knowledge – Warm Up Starter

The table below provides a glossary of the key terms linked with the topic of exchange rate systems. However, the definitions are all mixed up! Draw lines to connect the correct key term to the correct definition.

Key Term	Definition
Crawling Peg	The exchange rate is usually determined by the market forces of demand and supply, but occasionally the central bank or other monetary authorities may intervene to alter the rate of change of currency value or prevent too much volatility
Currency Board	The currency of a country is purely the currency of another country, or there is a currency union where countries share a single currency
Fixed Exchange Rate	The exchange rate is set at a pre-determined level against another currency, and is allowed to fluctuate within a certain range around the level, usually by a few percentage points
Freely Floating Exchange Rate	The exchange rate is formally fixed against another currency or basket of currencies, and the monetary authorities will actively intervene to maintain that peg by buying/selling currency
Managed Float	An arrangement in which a domestic currency is directly exchangeable for another currency, and is completely “backed” by the foreign currency – there is therefore no active central bank
No legal tender of their own	The exchange rate is determined purely by the market forces of demand and supply
Pegged exchange rate within bands	The exchange rate is fixed against another currency and is adjusted periodically in small, fixed steps

Main Task – Classifying Exchange Rate Systems

Carry out research to work out what type of exchange rate system is in operation in each of the countries in the list – each country either has been or will be part of the Beyond the Bike adventure.

Write the country name next to the correct box in the diagram at the bottom of the page.

Country List

United Kingdom

South Africa

China

Democratic Republic of Congo

Zambia

United Arab Emirates

Botswana

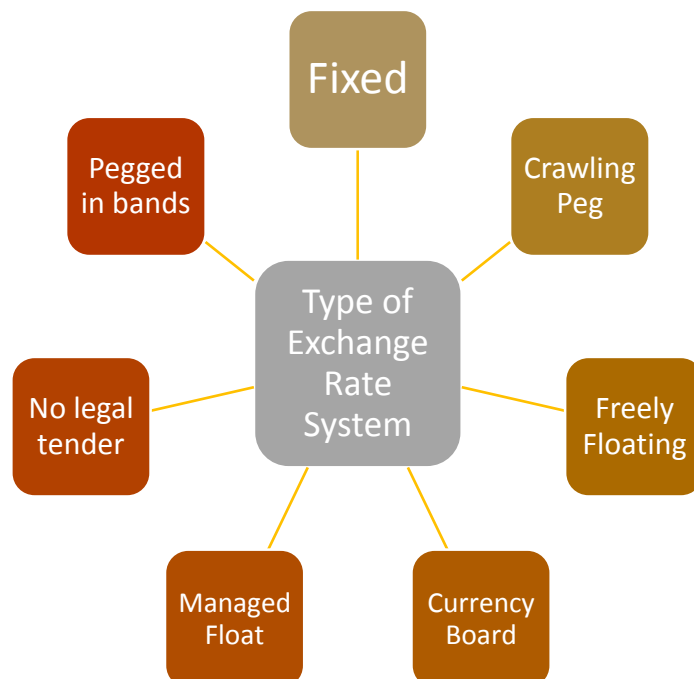
Belgium

Uganda

Cambodia

Tanzania

Rwanda



Exchange Rate Systems

Solutions – Warm Up

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Pegged exchange rate within bands	The exchange rate is set at a pre-determined level against another currency, and is allowed to fluctuate within a certain range around the level, usually by a few percentage points

Solutions – Main Task

