

The City School

Boys Campus North Nazimabad



1 Some countries have a fixed exchange rate system, but others allow the external value of their currency (foreign exchange rate) to float.

(a) Explain how the external value of a currency is determined in a floating or flexible exchange rate system. [4]

(b) Describe how a government maintains the external value of its currency in a fixed exchange rate system. [4]

(c) Explain why a government might want the external value of its currency to fall. [4]

(d) Discuss to what extent a floating exchange rate is preferable to a fixed exchange rate system. [8]