Fixed v. Floating Rates of Exchange

Fixed	Floating
Means that each currency is fixed to the value of a particular currency's worth in gold	Means that each currency is independently valued to its worth in gold
Value of currency is pegged to one currency- *from 1840 until a little after WWI-based on British pound sterling *Start of Bretton Woods system (1944) until 1971 under Nixon, gold standard set at US$35=1 oz. gold	Value of currency is set by the market; governments can choose to peg or fix their currency to a particular currency
Governments can only adjust economy internally	Governments can adjust economy both internally & externally
Currency value is determined by the economic hegemon's central bank	Currency value is determined by the global market because currencies can be bought and sold--based on supply and demand
Central bank of the economic hegemon controls global economy and changes in exchange rates	More difficult for governments to control for currency fluctuations because it is a market-driven system
Most importantly: Currencies **can't** be bought and sold on the market -This makes the global economy more stable, but more volatile for the economic hegemon	Most importantly: Currencies can be bought and sold • This makes the economy far more volatile, esp. for GS countries • If demand for a currency is low, its value will decrease, thus making imported goods more expensive and thus stimulating demand for local goods and services. • This in turn will generate more jobs, and hence an auto-correction would occur in the market
***The global economy is actually a mix of fixed and floating exchange rates-commonly referred to as a flexible rate of exchange-because some countries choose to peg their currency to the US dollar or other strong GN currency.	

Internally-meaning through the central bank with inflation, interest rates, government spending, taxation

Externally-meaning the government can buy and sell its currency on the international market to help control price

Fixed exchange rate:	
Essentially all currencies would be valued according to what dominant currency's value is in gold	
US $35=1 oz. gold	sets the standard for the rest
£ would then be valued in $	it would take 19£ to buy $35, and therefore buy 1 oz. of gold
₣ would be valued in $	it would take ₣ 245 to buy $35, and therefore buy 1 oz. of gold
¥ would be valued in $	it would take ¥ 4142 to buy $35, and therefore 1 oz. of gold
Floating exchange rate:	
Is determined by the market value of the currency-what this means is that because currency can be bought and sold, the value of a currency is not fixed to any one currency rate, but instead based on the buying and selling of currency, just like any other commodity	