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Foreign Exchange Rate Regimes And The Asian Currency Crisis

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ABSTRACT

This thesis is a study on the Asian currency crisis. It starts with a review of the theories on foreign exchange rate regimes and their adjustment mechanisms. The monetary approach of foreign exchange rate is discussed and used as a framework in analyzing on the origins and causes of the currency crisis, which started in the East Asia in mid 1997.

A lot of statistical data are used in the analysis on the crisis-hit countries in terms of prices, interest rates, external competitiveness, foreign exchange rates of major currencies and the flow of foreign capital and so on. It is found that the main origins and causes of the Asian currency crisis are from the deterioration of external competitiveness and the misuse of foreign capital and bad supervision of the domestic financial markets. The characteristics of a pegged exchange rate regime has proved to be too rigid to reflect the changes in the fundamentals of the economy and has been responsible for the accumulative inconsistencies leading to the collapse of the regime.

The Asian currency crisis indicates that in the present world in which economic globalization has become a mainstream trend, it is getting more difficult to maintain a pegged exchange rate regime. The Asian currency crisis also reflects the importance of the establishment of a sound financial sector and good supervisory and governing abilities of the government when liberalizing its domestic financial market, especially on the opening of the domestic capital market. A rush of financial liberalization would likely generate vulnerabilities to the economic system.

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