- To prevent the black market, the government has to come to the FORE market and purchase with its own supply of foreign currencies, its own domestic one in order to bring back the exchange rate to the desired equilibrium. There is a risk that the government exhaust its holding of foreign currencies, then becomes unable to maintain the exchange rate, and will be forced to admit the exchange rate to decline to some level or switch to the floating regime.

Advantages and disadvantages:

Fixed/Floating exchange rate regime	
Advantages	**Disadvantages**
Avoid currency fluctuations in order to protect the firms on trade (appreciation: the exports of a from council become uncompetitive; depreciation: the costs of imports on raw materials could reduce the profitability). Stability encourages investments: if uncertainty around the exchange rate occurs, some invests or financial institutions might withdraw their investment and diversity in other countries (cumulated disadvantage). ie. Brexit. Keep the inflation low: a devaluation of the currency might create an inflationary pressure to occur (Demand increases import prices increases, firms have less incentive to cut costs) Current government balance: drastic appreciation in country currency impact the exports.	Conflict with other macroeconomic objectives: the most effective way for countries to solve a pressured depreciating currency is the raise of interest rates (reducing inflationary pressures)> BUT this leads to lower aggregate demand and lower the economic growth. With time, recession and unemployment are under time. Less flexibility: In fixed exchange rate, it is difficult to respond to temporary shocks. ie. if a country is a net importer of an essential good which price increases, it will suffer in its balance of payments. The threat of black markets and the necessity to control its holdings in international currencies. (cf. above)

Flexible/Pegged exchange rate regime	
Advantages	**Disadvantages**
Automatic adjustments in Balance of Payments: BoP disequilibrium gets corrected automatically with the exchange rate. No impact on the domestic policies: a government can adopt an independent monetary policy. Internal balance could be maintained by the government. Because of the self-adjusting mechanism of BoP equilibrium, the government can put more effort into tackling internal problems like inflation, unemployment, etc.	Uncertainty & confusion in trade and investments: when invoices are done to foreign customers, there is an uncertainty of the amount to be converted an sent. There is therefore a large proportion of financial wealth which is spent on hedging strategies or speculative activities (collateral securities and packaged assets) instead of tangible investments for the population. High uncertainty might bring confidence in the system and lack of foreign investments or entrepreneurial ventures domestically.