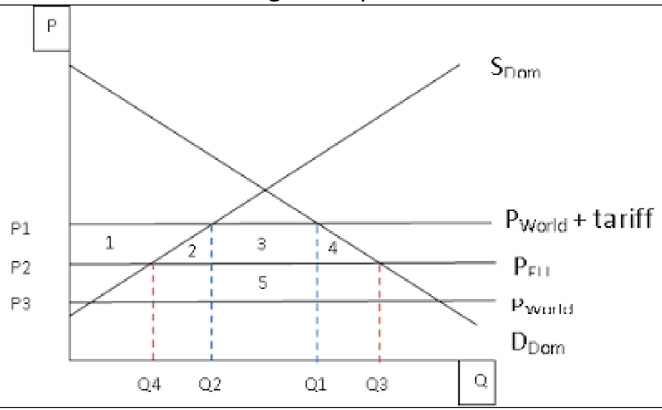
	exports so won't want a high exchange rate – can use extra money from higher export rate if low exchange rate to import more • EFFECT ON EFFICIENCY • Domestic markets now face more competition, leads to them being more efficient – (Perfect competition efficient, monopoly inefficient)
EVALUATION OF EXCHANGE RATES **DEGREE OF CERTAINTY FOR STAKEHOLDERS**	• FIXED EXCHANGE RATE • High degree of certainty for firms consumer and government as they will know what it will be in the future • *Firms* - Can plan future investments both domestically and abroad, predict costs of imports and future sales • *Consumers* – Better plan travelling abroad, purchasing of imported goods and services and financial investments abroad • *Governments* – Similarly can plan activities involving foreign transactions • Speculation is limited, removes a cause of currency instability • Increase confidence • FLOATING EXCHANGE RATE • Can cause uncertainty as stakeholders are unsure of value in the future • *Firms* - Negative effects on trade and investment due to inability to plan for the future • *Consumers* – Inability to plan • *Government* – Large and abrupt exchange rate changes can cause problems for countries that depend heavily on exports. Can result in financial crises due to large current account deficits • Currency speculation can be destabilising
ROLE OF FOREIGN CURRENCY RESERVES	• FIXED EXCHANGE RATE • Central bank intervention to maintain a fixed exchange rate requires high supply of foreign currency reserves • Problems can arise if not sufficient foreign reserves • FLOATING EXCHANGE RATE • No need for foreign reserves • Balance of payments balance through market forces
EASE OF ADJUSTMENT	• FIXED EXCHANGE RATE • No easy methods to fix imbalances in balance of payments • External shocks e.g. sudden increase in oil prices leading to current account deficits can't be handled quickly • Persistent current account deficits require foreign currency reserves or access to foreign borrowing. • If these are unavailable country must resort to contractionary policies, trade protection or exchange controls, all with serious negative

TRADE DIVERSION	Where the creation of a trading bloc moves the production of a good or service from a low cost producer to a high cost producer
	
SINGLE CURRENCIES SINGLE CURRENCY	Where a number of countries all use the same currency and have a single central bank
ADVANTAGES OF A SINGLE CURRENCY	• No transaction costs (Costs involved in converting currency), therefore trade more competitive within Eurozone, keeps money within the trading bloc • Buying decisions are easier, increases information to buyers as prices will all be in Euros, more efficient • Increased confidence in trade, more likely to conduct long term agreements in Euros as price won't fluctuate • Increased confidence will increase investment • Shared, single currency should have more strength than individual country's currency
DISADVANTAGES OF A SINGLE CURRENCY	• Currency appreciates and depreciates according to all countries, not individual, can't let currency sort itself out naturally to achieve macro objectives, economies aren't the same • Can't purposefully manipulate currency to benefit imports/exports • Single central bank means can't control interest rates or supply of money – no macro power • European countries can't quantitative ease without agreement of ECB, and German's have huge fear of hyperinflation • Also menu costs of moving to a new currency, e.g. printing new money and initial concern and uncertainty over what things cost **Overall:** More likely to be successful if economies are converging so objectives will overlap, Eurozone has a lot of diverging economies
TERMS OF TRADE TERMS OF TRADE	Analyses the relationship between a countries import prices and export prices. It analyses how many imports a country can buy with a given quantity of a country's exports