

Contents

	Page
Preface	v
I. Introduction	1
II. The Current Exchange Rate Regime	4
Characteristics of the Current Exchange Rate Regime	4
Exchange Rate Developments and Policy Coordination Efforts Since 1973	8
Overall Performance Since 1973	11
III. The Expansion and Integration of International Financial Markets	13
Structural Changes in International Financial Markets	13
Policy Implications of Structural Changes in International Financial Markets	14
IV. Volatility, Misalignment, and Access to Capital	18
Volatility	18
Exchange Rate Misalignments	22
Access to International Capital Markets	24
V. Limiting Exchange Rate Variability: The Target Zone Method	25
Benefits and Costs of Target Zones	25
Policies to Maintain Target Zones	27
The Role of Monetary Policy	29
VI. Conclusions and Implications for the IMF	31
References	35
Tables	
Section	
II. 1. Developing Countries: Classification of Exchange Rate Arrangements	8
2. Standard Deviation of Monthly Change in Bilateral Real Exchange Rates	10
3. Growth in Real Trade and Real GDP	11

Charts**Section**

II.	1. Major Industrial Countries: Nominal and Real Effective Exchange Rates, January 1973–June 1994	6
IV.	2. Germany, Japan, and the United States: Volatility of Nominal Exchange Rates, January 1962–July 1994	19
	3. Volatility of Selected Nominal Exchange Rates, January 1962–July 1994	21
	4. United States: Real Exports and Imports of Goods and Services, January 1973–June 1994	23

The following symbols have been used throughout this paper:

... to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

- between years or months (e.g., 1991–92 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 1991/92) to indicate a crop or fiscal (financial) year.

“Billion” means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term “country,” as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.