Exchange Rate

Foreign Exchange Rate: the value of one currency for the purpose of conversion to another. It means, if you travel internationally, you most likely will need to exchange your own currency for that of the country you are visiting. The amount of money you'll get for a given amount of your country's currency is based on internationally determined exchange rates.

A few factors can influence the Exchange rate strength of a currency:

- Inflation
- Political Environment
- Unemployment
- Speculation
- Debt

Based on some or all of these factors, a currency's strength will increase or decrease accordingly.

So basically, there are mainly two types of exchange rate systems. One is a floating exchange rate system and another one is a Fixed exchange rate system.

In a **floating exchange rate** system the currency's value is allowed to fluctuate according to the foreign exchange market. There is no intervention by the government or the central bank. It is also known as a **flexible exchange rate system**.

If value of currency is raised, we are talking about **Appreciation.** If value of currency is lowered, we are talking about **Depreciation.**

But in a **fixed exchange rate system**, the value of the currency is fixed against the value of another currency or to gold. It is fixed by the government. This system is also known as **Pegged Exchange rate system**.

If value of currency is raised, we are talking about **Revaluation.** If value of currency is lowered, we are talking about **Devaluation.**

Exchange Rate

References:

Lumen Boundless Economics(N.D.)

Retrieved from: https://courses.lumenlearning.com/boundlesseconomics/chapter/exchange-rates/

Finance Management. (2022). Types of exchange rates.

Retrieved from: https://efinancemanagement.com/international-financialmanagement/types-of-exchange-rates