

The Indeterminacy of a Flexible Exchange Rate System When Financial Markets Are Dormant

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EXECUTIVE SUMMARY

In a least developed country where financial markets are inactive and economic growth is low, the international market for the country's currency is very thin. The currency cannot compete with stronger currencies of more developed countries. Therefore, a flexible (free floating) exchange rate system will not work (is indeterminate) in that country. Thus, developed financial markets and significant levels of economic growth are prerequisites for the competitiveness of a country's currency. This impinges on the competitiveness of the country's goods when they are exchanged for foreign goods.

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