

11.3: Currency Issues

The current currency environment can best be described as a managed [floating system](#). Following the collapse (in 1972) of the [Bretton Woods System](#) in which countries strived to maintain fixed exchange rates, the international community has allowed currency rates to be established primarily by market forces. Supply and Demand conditions operate on a daily basis to influence the level of exchange rates. Exchange rates fluctuate on a daily basis. However, government central banks may operate in the market in attempts to influence the movement in currency markets. This intervention is why it is sometimes referred to as a managed floating system as opposed to a pure floating system. It should be noted that government intervention is typically a very minor component in exchange rate fluctuations. One important implication of a floating system is that by allowing exchange rates to fluctuate on a daily basis, currency risk becomes an important element that firms must address.

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