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EXCHANGE RATES

Annotation. The article is concerned with some aspects of exchange rate. Various definitions of exchange rate were studied. Some economic that can cause the exchange rate fluctuation were regarded. Economic, social and political requirements for exchange rate stabilization were outlined.

Анотація. Розглянуто деякі аспекти обмінної ставки. Вивчено різні дефініції обмінної ставки, розглянуто економічні процеси, що впливають на коливання цієї ставки. Визначено економічні, соціальні та політичні вимоги щодо стабілізації обмінної ставки.

Аннотация. Рассмотрены некоторые аспекты обменной ставки. Изучены различные определения ставки обмена, рассмотрены экономические процессы, влияющие на колебания этого показателя. Определены экономические, социальные и политические условия для стабилизации обменной ставки.

Keywords: exchange rates, merger, acquisition, economy, company, shares, assets, purchase.

Aside from factors such as interest rates and inflation, the Exchange Rate is one of the most important determinants of a country's relative level of economic health.

The topicality of this article is related to the fact that the exchange rate plays a vital role in a country's level of trade, which is critical to every free market economy of the world. For this reason, exchange rates are among the most watched, analyzed and governmentally manipulated economic measures. But exchange rates matter on a smaller scale as well: they impact the real return of an investor's portfolio. Here we look at some of the major forces behind the exchange rate movements.

The aim of this article is to study the nature of Exchange Rates and the factors that influence Exchange Rates.

There are many economists who work in the same direction such as Shleifer Andrei, Jovanovic Boyan, David T. Robinson, Robert Vishny and others.

The exchange rate movements affect a nation's trading relationships with other nations. A higher currency makes a country's exports more expensive and imports cheaper in foreign markets; a lower currency makes a country's exports cheaper and its imports more expensive in foreign markets. A higher exchange rate can be expected to lower the country's balance of trade, while a lower exchange rate would increase it.

The Ukrainian Hryvna is the currency of Ukraine. Our currency rankings show that the most popular Ukrainian Hryvna exchange rate is the EUR to UAH rate.

Numerous factors determine exchange rates, and all are related to the trading relationship between two countries. Exchange rate is the price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another [1].

The following are some of the principal determinants of the exchange rate between two countries. For Ukraine these determinants are the same.

The first of the principal determinants of Exchange rate is differentials in inflation. As a general rule, a country with a consistently lower inflation rate exhibits a rising currency value, as its purchasing power increases relative to other currencies.

The second principal determinant is differentials in interest rates. Interest rates, inflation and exchange rates are all highly correlated. By manipulating interest rates, central banks exert influence over both inflation and exchange rates, and changing interest rates impact inflation and currency values. Higher interest rates offer lenders in an economy a higher return relative to other countries.

The third principal determinant is public debt. Countries will be engaged in large-scale deficit financing to pay for public sector projects and governmental funding. While such activity stimulates the domestic economy, nations with large public deficits and debts are less attractive to foreign investors. A large debt encourages inflation, and if inflation is high, the debt will be serviced and ultimately paid off with cheaper real dollars in future [1].

In the worst case scenario, a government may print money to pay part of a large debt, but increasing the money supply inevitably causes inflation. Moreover, if a government is not able to service its deficit through domestic means (selling domestic bonds, increasing the money supply), then it must increase the supply of securities for sale to foreigners, thereby lowering their prices. Finally, a large debt may prove worrisome to foreigners if they believe the country risks defaulting on its obligations. Foreigners will be less willing to own securities denominated in that currency if the risk of default is great. For this reason, the country's debt rating is a crucial determinant of its exchange rate [2].

The next principal determinant is terms of trade. In a ratio comparing export prices to import prices, the terms of trade are related to current accounts and the balance of payments. If the price of a country's exports rises by a greater rate than that of its imports, its terms of trade have favorably improved. While increase of trade terms shows greater demand for the country's exports. This, in turn, results in rising revenues from exports which provides an increased demand for the country's currency (and an increase in the currency's value). If the price of exports rises by a smaller rate than that of its imports, the currency's value will decrease in relation to its trading partners.

Finally the last principal determinant of the exchange rate is political stability and economic performance [1].

Foreign investors inevitably seek out stable countries with strong economic performance in which to invest their capital. A country with such positive attributes will draw investment funds away from other countries perceived to have more political and economic risk. Political turmoil, for example, can cause a loss of confidence in a currency and a movement of capital to the currencies of more stable countries [3].

In conclusion it must be said that the exchange rate of the currency in which a portfolio holds the bulk of its investments determines that portfolio's real return. A declining exchange rate obviously decreases the purchasing power of income and capital gains derived from any returns. Moreover, the exchange rate influences other income factors such as interest rates, inflation and even capital gains from domestic securities. While exchange rates are determined by numerous complex factors that often leave even the most experienced economists flummoxed, investors should still have some understanding of how currency values and exchange rates play an important role in the rate of return on their investments.

Наук. керівн. Бутковська Н. О.

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