The Stabilizing Effects of Active KRW-JPY Transactions on KRW Exchange Rate Movements (in Korean)

Author

Listed:
- Sangwon Suh
  (Institute for Monetary and Economic Research, The Bank of Korea)

Registered:

Abstract

While there are customer foreign exchange transactions involving the Korean Won and the Japanese Yen in Korea, inter-bank KRW-JPY foreign exchange transactions do not take place through a formal exchange. It is demonstrated theoretically in this paper that active inter-bank KRW-JPY transactions would change the dynamics of the KRW exchange rate. The results from the analysis show that the KRW exchange rate would be more stable with a liquid inter-bank FX market for KRW-JPY transactions than they are without such a market, in terms of both the deviation from the desired exchange rate level and exchange rate volatility.

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