

- Sovereign wealth funds → government run investment pools
- Hedge/private equity funds

### Week 2: Exchange rate Systems:

- **Floating exchange rate system: (appreciation/depreciation)**
  - Independently floating
  - Managed floating
- **Pegged exchange rate system: (de/revaluation)**
  - Conventional fixed rate
  - Target zones- currency allowed to fluctuate in a percentage band around a central value
  - Crawling peg- band adjusted over time used in developing countries to prevent from losing too much competitiveness when inflation is high
  - Currency board- monetary institution that issues base money fully backed by foreign reserve currency and fully convertible into reserve currency at fixed rate and on demand (set conversion but can't print money)
- **No separate legal tender:** adopt currency of another country (small countries)

### Currency risk:

- **Floating** → generally symmetric observable through historical volatility
  - Exchange rate variations determined by market d/ s of currency
  - Determinants:
    - Differences in money supply growth
    - Differences in real interest rates
    - Political and financial risks
  - Measure of risk:
    - Volatility (only if normally distributed)
    - Historical data

### Central bank balance sheet:

- **RBA role:** setting cash rate to meet agreed inflation target, working to maintain strong financial system and efficient payment system and issuing nation's bank note
- Government through central banks controls money supply, when too much money issued relative to demand inflation results
- **Central Bank balance sheet:**

Assets	Liabilities
Official international reserves	1. Deposits of private financial institutions (Bank reserves)
Domestic credits: -gov't bonds (influence money supply) -loans to domestic financial institutions	2. Currency in circulation  1+2= BASE MONEY
Other	Others

- **Official reserves:**

