

Definition	Verbal	Algebra	Learnt
1. Flexible exchange rate	A flexible exchange rate is one that is determined in the market for foreign exchange without government intervention or regulation		
2. Euro commercial paper	A short-term unsecured promissory note issued in a currency other than that of the country in which it is issued with maturity of 60-180 days		
3. Purchasing power parity	A condition of equality in price levels between different countries once the different currencies have been taken into account using the exchange rate.	$P = S(d/f)P^*$ <p>Where, P = domestic price level P* = foreign price level S(d/f) = Exchange rate</p>	
4. Law of one price	The law of one price states that the same commodity sells for the same price in different countries once the price is expressed in a single currency.	$P_i = S(d/f)P_i^*$ <p>Where, P = domestic price of commodity i P* = foreign price of commodity i S(d/f) = Exchange rate</p>	
5. Effective exchange rate	An exchange rate that takes into account more than one other currency	$E_t = \sum W_i V_{it} = \sum W_i \frac{S_{it}}{S_{io}}$ <p>Where, E_t = Effective exchange rate W_i = Weight – sum of country in total trade V_{it} = Exchange rate relative S_{it} = Exchange rate of country i S_{io} = Exchange rate of country i in base period</p>	