Making Everything Easier!™

International Finance FOR DUMMIES®

A Wiley Brand

Learn to:

- Master complex theories and simplify calculations
- Find ways to hedge against foreign exchange risk
- Navigate the complexities of world currencies and exchange rates

Ayse Y. Evrensel, PhD

Associate Professor of Economics, Southern Illinois University

International Finance For Dummies

A Wiley Brand

by Ayse Y. Evrensel, PhD

For Dummies
A Wiley Brand

International Finance For Dummies®

Published by
John Wiley & Sons, Inc.
111 River St.
Hoboken, NJ 07030-5774
www.wiley.com

Copyright © 2013 by John Wiley & Sons, Inc., Hoboken, New Jersey

Published by John Wiley & Sons, Inc., Hoboken, New Jersey

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at http://www.wiley.com/go/permissions.

Trademarks: Wiley, the Wiley logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc., and/or its affiliates in the United States and other countries, and may not be used without written permission. [Insert third party trademarks from

book title or included logos here]. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

Limit of Liability/Disclaimer of Warranty: The publisher and the author make no representations or warranties with respect to the accuracy or completeness of the contents of this work and specifically disclaim all warranties, including without limitation warranties of fitness for a particular purpose. No warranty may be created or extended by sales or promotional materials. The advice and strategies contained herein may not be suitable for every situation. This work is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If professional assistance is required, the services of a competent professional person should be sought. Neither the publisher nor the author shall be liable for damages arising herefrom. The fact that an organization or Website is referred to in this work as a citation and/or a potential source of further information does not mean that the author or the publisher endorses the information the organization or Website may provide or recommendations it may make. Further, readers should be aware that Internet Websites listed in this work may have changed or disappeared between when this work was written and when it is read.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

For technical support, please visit www.wiley.com/techsupport.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at http://booksupport.wiley.com. For more information about Wiley products, visit www.wiley.com.

Library of Congress Control Number: 2013933936

ISBN: 978-1-118-52389-6 (pbk); ISBN 978-1-118-59182-6 (ebk); ISBN 978-1-118-59189-5 (ebk); ISBN 978-1-118-59191-8 (ebk)

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1

About the Author

Ayse Y. Evrensel holds a PhD from the University of Zurich (Switzerland) in Economic and Social Geography (1984) and a PhD in Economics from Clemson University (1999). As a geographer, she worked at University of Zurich and Clemson University (SC). In geography, her areas of teaching and research focused on international migration, economic development, multilateral organizations, and the European Union.

As an economist, she worked at Ball State University, Portland State University, and University of California San Diego. In Economics, she has taught a wide range of courses such as Macroeconomics, Microeconomics, Econometrics, International Finance, International Trade, and Financial Markets. She has published on the effects of IMF programs, banking regulations, banking crises, preferential trade arrangements, corruption, and the relationship between institutional quality and culture.

Ayse is currently an associate professor of Economics at Southern Illinois University Edwardsville. She lives in Edwardsville, Illinois.

Dedication

I dedicate this book to Myles Wallace, my teacher and dear friend.

Author's Acknowledgments

I have been teaching International Finance for many years. Over the years, my students have become my teachers, especially when it comes to how to teach the subject. I am deeply grateful for their genuine involvement and contribution to the course.

I could not have had the courage to get involved in this project without David Lutton and Erin Calligan Mooney holding my hand and showing me the ropes at the very beginning of the writing process. I am very appreciative of their support, encouragement, and trust.

I wish I could give everything I write to Linda Brandon for editing because she is such an amazing editor. I hope to have learned one or two things from her about writing. I am grateful to Linda for her patience and professionalism. I also thank Krista Hansing for her involvement in the project.

I am very grateful to technical editors Jerry Dwyer and Allen Brunner for their valuable comments and suggestions.

Publisher's Acknowledgments

We're proud of this book; please send us your comments at http://dummies.custhelp.com. For other comments, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

Some of the people who helped bring this book to market include the following:

Acquisitions, Editorial, and Vertical Websites

Project Editor: Linda Brandon

Acquisitions Editor: Erin Calligan Mooney

Copy Editor: Krista Hansing

Assistant Editor: David Lutton

Editorial Program Coordinator: Joe Niesen

Technical Editors: Allan Brunner; Jerry Dwyer

Senior Editorial Manager: Jennifer Ehrlich

Editorial Manager: Carmen Krikorian

Editorial Assistant: Rachelle S. Amick

Art Coordinator: Alicia B. South

Cover Photos: © klenger / iStockphoto.com

Composition Services

Project Coordinator: Katie Crocker

Layout and Graphics: Carl Byers, Melanee Habig, Joyce Haughey

Proofreaders: John Greenough Eveylun Wellborn

Indexer: BIM Indexing & Proofreading Services

Publishing and Editorial for Consumer Dummies

Kathleen Nebenhaus, Vice President and Executive Publisher

David Palmer: Associate Publisher

Kristin Ferguson-Wagstaffe, Product Development Director

Publishing for Technology Dummies

Andy Cummings, Vice President and Publisher

Composition Services

Debbie Stailey, Director of Composition Services

International Finance For Dummies®

Visit www.dummies.com/cheatsheet/internationalfinance to view this book's cheat sheet.

Table of Contents

Introduction

- About This Book
- Conventions Used in This Book
- What You Are Not to Read
- Foolish Assumptions
- How This Book Is Organized
  - Part I: Getting Started with International Finance
  - Part II: Determining the Exchange Rate
  - Part III: Understanding Long-Term Concepts and Short-Term Risks
  - Part IV: Conducting a Background Check: Currency Changes through the Years
  - Part V: The Part of Tens
  - Appendix
- Icons Used in This Book
- Where to Go from Here

Part I: Getting Started with International Finance

Chapter 1: Money Makes the World Go ’Round

Checking Out Definitions and Calculations

What’s an exchange rate?

What do you say when the exchange rate changes?

Who cares about exchange rates?

Finding Out What Determines (Or Changes) Exchange Rates

Which model to use?

Are there any prediction rules to live by?

Getting to the Long and Short of It

What’s the percent change in the exchange rate?

Can anything be done about the risk due to short-term volatility in exchange rates?

Answering Questions about the System: Fixed, Flexible, or Pegged?

Does the type of money matter for the exchange rate?

Which international monetary system is better?

Is the Euro-zone an optimum currency area?

Gaining Insight into the Do’s and Don’ts of International Finance

Looking at Finance Globally

Chapter 2: Mastering the Basics of International Finance

Making the Exchange: Exchange Rates

Understanding exchange rates as the price of currencies

Applying relative price to exchange rates

Taking on Different Exchange Rates

Nominal exchange rates

Real exchange rates

Effective exchange rates

Tackling Terminology: Changes in Exchange Rates

Calculating the percent change

Defining appreciation and depreciation

Finding revaluation and devaluation

Grasping Exchange Rate Conversions

Exchange rate as the price of foreign currency

Exchange rate as the price of domestic currency

Calculating Cross Rates

Figuring the Bid–Ask Spread

Gaining insight at an international airport

Finding the spread

Chapter 3: Buy, Sell, Risk! Users of Foreign Exchange Markets

Identifying Major Actors in Foreign Exchange Markets

Multinational firms

Speculators

Central banks

Watching Out for Risk

FX risk of an exporting firm

FX risk of an importing firm

FX risk in a domestic company–foreign subsidiary setting

Speculation: Taking a Risk to Gain Profit

When speculation goes right

When speculation goes wrong

Chapter 4: It’s All about Change: Changes in the Exchange Rate

Considering a Visual Approach to Changes in Exchange Rates

Looking at How Macroeconomic Variables Affect Exchange Rates

Output and exchange rates

Inflation rates and exchange rates

Interest rates and exchange rates

Uncovering Hidden Information in Graphs: Exchange Rate Regimes

Defining exchange rate regime

Visualizing exchange rate regimes

Part II: Determining the Exchange Rate

Chapter 5: It’s a Matter of Demand and Supply

Apples per Orange, Euros per Dollar: It’s All the Same

Price and quantity of oranges

Demand and supply in the orange market

Determining Exchange Rates through Supply and Demand

Price and quantity

Factors that affect demand and supply

Predicting Changes in the Euro–Dollar Exchange Rate

Inflation rate

Growth rate

Interest rate

Government interventions

Keeping It Straight: Using a Different Exchange Rate

Chapter 6: Setting Up the Monetary Approach to Balance of Payments

Discovering the MBOP’s Approach to Exchange Rates

Viewing the basic assumptions

Setting the MBOP apart

Explaining the Money Market

Demand for money

Supply of money

Money market equilibrium

Taking On the Foreign Exchange Market

Asset approach to exchange rate determination

The expected real returns curve

The other real returns curve

Equilibrium in the foreign exchange market

Changes in the foreign exchange market equilibrium

Combining the Money Market with the Foreign Exchange Market

The combined MBOP

Changes in the exchange rate equilibrium in the combined MBOP

Keeping It Straight: What Happens When You Use a Different Exchange Rate?

Chapter 7: Predicting Changes in Exchange Rates Based on the MBOP

Applying Real Shocks to MBOP

Increase in U.S. output

Increase in Eurozone’s output

Applying Nominal Shocks to MBOP

Short- and long-run effects of a nominal shock — without overshooting

Short- and long-run effects of a nominal shock — with overshooting

Comparing MBOP with and without overshooting

Keeping It Straight: What Happens When We Use a Different Exchange Rate?

Effects of a real shock

Effects of a nominal shock

Comparing Predictions of MBOP and the Demand–Supply Model

Part III: Understanding Long-Term Concepts and Short-Term Risks

Chapter 8: Your Best Guess: The Interest Rate Parity (IRP)

Tackling the Basics of Interest Rate Parity (IRP)

Differences between IRP and MBOP

The International Fisher Effect (IFE)

IRP and forward contracts

Working with the IRP

Derivation of the IRP

Calculation of forward discount and forward premium

Speculation Using the Covered Interest Arbitrage

Covered versus uncovered interest arbitrage

Covered arbitrage examples

Graphical treatment of arbitrage opportunities

Determining Whether the IRP Holds

Empirical evidence on IRP

Factors that interfere with IRP

Chapter 9: Taking a Bite Out of the Purchasing Power Parity (PPP)

Getting a Primer on the Purchasing Power Parity (PPP)

Linking the PPP, the MBOP, the IRP, and the IFE

Figuring the absolute and relative PPP

Working with the PPP

Derivation of the PPP

Application of the PPP

Deciding Whether the PPP Holds

The PPP and the Big Mac Standard

Empirical evidence on the (relative) PPP

Chapter 10: Minimizing the FX Risk: FX Derivatives

Checking Out FX Derivatives

Forward contracts and export–import firms

Futures, options, and speculators

Moving to Forward Contracts

Forward premium or discount

Forward contracts that backfire

Forward contracts that work

Looking at Futures Contracts

Finding arbitrage in FX derivative markets

Marking to market

- Just Say “No” to Obligation! Looking at Options
  - Paying the price for having an option: The option premium
  - Employing your right to buy: Call options
  - Applying your right to sell: Put options

Part IV: Conducting a Background Check: Changes in Currency through the Years

Chapter 11: Macroeconomics of Monetary Systems and the Pre-Bretton Woods Era

- Reviewing Types of Money through the Ages
  - Pure commodity standard
  - Convertible paper money and gold standard
  - Fiat money
- Examining the Relationship between Types of Money and Exchange Rate Regimes
  - Exchange rates in a commodity standard system
  - Exchange rates in a fiat money system
- Understanding the Macroeconomics of the Metallic Standard
  - Maintaining internal balance
  - Maintaining external balance
  - Checking out the interdependence of macroeconomic conditions
  - Finding compatibility: The trilemma
- Discovering the Monetary System of the Pre–Bretton Woods Era
  - The bimetallic era (until 1870)
  - Gold standard of the pre–World War I era (1870–1914)
  - The interwar years (1918–1939)

Chapter 12: The Bretton Woods Era (1944–1973)

Gaining Insight into the Bretton Woods System

Attending the Bretton Woods Conference in 1944

Lessons learned from the past and new realizations

Clashing ideas at the conference

Judging the Outcome of the Bretton Woods Conference

Setting the reserve currency system

IMF: Manager of fixed exchange rates

Marking the Decline of the Bretton Woods System

Dollar shortage and the Marshall Plan (1947)

Systems getting out of hand (1950s and 1960s)

Nailing the coffin in 1971 (and then again in 1973)

Chapter 13: Exchange Rate Regimes in the Post–Bretton Woods Era

Using Floating Exchange Rates

Advantages and disadvantages of floating exchange rates

Intervention into floating exchange rates

Unilaterally Pegged Exchange Rates

Using hard pegs

Trying soft pegs

Attracting foreign investors with soft pegs

Dealing with Currency Crises and the IMF

Decoding the IMF’s role in the post–Bretton Woods era

Providing stability or creating moral hazard?

Mirror, Mirror: Deciding Which International Monetary System Is Better

Nostalgic about the Bretton Woods system? The case for fixed exchange rates

Don’t like fixed things? The case for flexible exchange rates

Intermediate regimes and overview of alternative exchange rate regimes

Chapter 14: The Euro: A Study in Common Currency

Introducing the Euro

A very brief history of the European Union

Optimum currency area (OCA)

Walking the Stages of European Monetary Integration

European Monetary System (EMS) and the European Monetary Union (EMU)

European System of Central Banks (ESCB) and European Central Bank (ECB)

Getting the Lowdown: Euro’s Report Card

Euro-zone countries

How the euro stands up to other currencies

Accomplishments of the Euro-zone

Challenges of the Euro-zone

Finding What the Future Holds for the Euro

Sovereign debt crisis taking a toll

Pain of political (and fiscal) integration

Part V: The Part of Tens

Chapter 15: Ten Important Points to Remember about International Finance

Catching Up on What a Relative Price Is

Finding Out What Makes a Currency Depreciate

Keeping in Mind That Higher Nominal Interest Rates Imply Higher Inflation Rates

Paying Attention to Interest Rate Differentials When Investing in Foreign Debt Securities

Uncovering the Two Parts of Returns When Investing in Foreign Debt Securities

Adjusting Your Expectations As Information Changes

Appreciating the Size of Foreign Exchange Markets

Using Foreign Exchange Derivatives for the Right Reason

Noting That Going Back to the Gold Standard Means Dealing with Fixed Exchange Rates

Realizing the Value of Policy Coordination in a Common Currency

Chapter 16: Ten Common Myths in International Finance

Expecting to Make Big Bucks Every Time You Speculate in Foreign Exchange Markets

Thinking You Can Buy a Big Mac in Paris at the Same Price as in Your Hometown

Ignoring Policymakers When It Comes to Exchange Rates

Giving Up on Theory Too Easily

Forgetting about High Short-Term Volatility in Exchange Rates

Thinking that All Changes in the Exchange Rate Are Traceable to Changes in Fundamentals

Thinking about Foreign Exchange Markets as Just Another Market

Assuming that Central Bank Interventions Are Meaningless

Thinking that Pegged Exchange Rates Are a Great Idea

Being Nostalgic about the Good Old Gold Standard Days

Appendix: Famous Puzzles in International Finance

Cheat Sheet

Introduction

I understand when people are perplexed about international finance. Been there, done that. But being perplexed about something can be good motivation to understand it. As a noneconomist (and a much younger person), I had the privilege of experiencing life in different countries such as Turkey, Brazil, and Switzerland, which greatly affected my career choice later.

Throughout the 1970s, the 1980s, and partly the 1990s, Turkey and Brazil experienced political struggles and economic problems. You could feel it in the streets, and bad news was everywhere in the media. Hyperinflation — annual inflation rates reaching 100 percent in Turkey during the early 1980s and several hundred percent in Brazil until the mid-1990s — was simply stunning. At the same time, these countries' currencies were depreciating. I sort of understood that part because I experienced it in my everyday life. I needed more of these countries' currencies to buy one unit of a hard currency such as the dollar, the German mark, or the Swiss franc.

By the way, although I didn't understand what was going on at that time, both official and unofficial (black market) places existed for buying or selling hard currency. Now I would call it *foreign exchange restrictions,* but then, it was just reality. Needless to say, when you sell your hard currency unofficially, you receive a lot more domestic currency than the official place gives you. Also, the International Monetary Fund (IMF) was part of these countries' daily life then. I understood that, for some reason, the central banks of these countries were losing hard currency. Sometimes they had problems paying imports. The IMF representatives visited these countries and worked out an austerity program in exchange for a large amount of hard currency. Then all newspapers published articles against the IMF and how awful the proposed austerity program was. People held demonstrations in the streets, shouting, “IMF, go home!”

Switzerland was a whole other experience. My experience in this country didn’t include any of the previous stories about Turkey and Brazil. I could tell that Switzerland was a very expensive but low-inflation country. Its currency was holding its own against other currencies. I didn’t experience any difficulty with exchanging currency there. In Switzerland, no restrictions governed exchanging foreign currency, so no black market in foreign currency existed. I didn’t hear anything about a large deficit of any kind. Certainly, the IMF wasn’t a part of everyday life there.

I had to learn international finance in a systematic way to understand my experiences when I was younger. This book reflects the same systematic way, which hopefully will help you understand international finance.

About This Book

A variety of people are the primary readers of this book. A student of economics can use it to supplement lectures and the textbook. A practicing economist may want to brush up on existing knowledge of international finance. Maybe learning more about exchange rates has been on your mind for awhile, and now that you have more time, you want to give it a shot. This book provides the fundamental knowledge necessary for people of all backgrounds to understand international finance. It contains the nuts and bolts of the subject, without going into great detail.

No matter who you are, your goal should be to *understand* the subjects of international finance. I've been a teacher for almost three decades. Sure, I can pose problems such as, "Suppose the demand–supply model of exchange rate determination, and graph the market for euros; show the effects of a higher inflation rate in the U.S. on the exchange rate." But I value the comments of my students on a news article much more as an assessment tool than their answers to exam questions. A news article has a lot of information, and sifting through information and using the relevant information to predict the change in the exchange rate is an accomplishment. Similarly, you may be part of conversations about China revaluing its currency or the gold standard being a much better system than the current one. When people talk, they say a lot of things, some that are relevant and some that aren't. Distinguishing between them and giving a straightforward and correct answer isn't easy at first. But practice makes perfect. Therefore, I recommend that you put your knowledge to the test by reading exchange rates–related news and getting into conversations with others.

Another challenge in economic analysis is that this discipline offers alternative theories that explain the same subject. Therefore, this book offers two alternative theories of exchange rate determination, to help you compare the predictions of different models.

The best way to deal with model- and calculation-related challenges is to work with paper and pencil. Reproducing the models and calculations helps you make them your own.

Conventions Used in This Book

Italics emphasize an important point. In the previous section, I put *understanding* in italics because I wanted to emphasize gaining a fundamental knowledge, not just acquiring short-term knowledge that you lose the next day.

Bold is used when new terminology is presented.

- Bullet points such as this one indicate several points related to a certain subject. This convention makes it easy to visually separate different aspects of the same conversation.

What You Are Not to Read

I’m not sure whether I should say *unfortunately*, but you can’t skip many parts of this book. I’ve included only a few “technical stuff” items and sidebars — you can skip those parts, if you want. Even though I’ve kept the details to a minimum, the nuts and bolts of the subject require quite a bit of analysis.

Foolish Assumptions

On the first day of all my courses, I distribute a couple subject-related questions among my students. I assure them that this isn’t an exam and tell them to give me their honest opinion. At the second class meeting, I summarize their responses and post them on our class Blackboard site. Going over their answers sparks interesting conversations.

Based on the answers in my upper-level undergraduate international finance course, I can say that some students can do currency conversions and, looking at a time-series graph (say, with years on the x-axis and the dollar–euro exchange rate on the y-axis), can also tell when the dollar depreciated or appreciated against the euro. However, most of them cannot explain why the dollar depreciates or whether the world should return to the gold standard. The average reader of this book may be in the same situation as my students on the first day of the class. But most of my students eventually get a grasp of the subject, and it is my hope that you, the reader, will become equally (if not more) knowledgeable about international finance.

International finance is an area of economics — more precisely, macroeconomics. You may be aware of economics' approach to analyzing the subject based on models. Curves are shifting for whatever reason, and then you predict the changes in the variables on the x- and y-axis of the model. I hope that you don't think of it as boring. Remember my life experiences that I talked about at the beginning of this Introduction. These models were instrumental in making sense of my life experiences. If you don't already see this, I hope that you come to appreciate their power in explaining the world.

How This Book Is Organized

The parts of this book (Parts I through V) are its backbone. They are well defined in terms of their content. The sequence of these parts also is helpful for learning the material. Parts start with definition- and calculation-related subjects and progress over exchange rate determination and then later to the historical and current structure of the international monetary system. In terms of the content and sequence of chapters in each part, chapters correspond to the title of the part and are cohesive within each part.

In the following, you find information regarding the content of each of the five parts in this book, which helps you determine where you want to start in this book.

Part I: Getting Started with International Finance

Part I is about understanding the basics of exchange rates, such as definitions, conversion calculations, and the use of correct terminology when exchange rates change (see Chapter 2). In Chapter 3, I discuss the relevance of exchange rates for all sorts of international business. Even though this part doesn't give you the reasons for the changes in the exchange rates, it makes a visual start. Therefore, in Chapter 4, I show a couple graphs to illustrate how the relevant macroeconomic variables affect the changes in the exchange rate.

Part II: Determining the Exchange Rate

The chapters in Part II answer the question of why exchange rates change. This question is important to answer because Part I shows that all sorts of international business and speculators are interested in predicting which way exchange rates will change. Part II introduces two models of exchange rate determination. First, the demand–supply model represents a basic approach to exchange rate determination (see Chapter 5). Second, it introduces the Monetary Approach to Balance of Payments (MBOP). Because the MBOP is a more extensive model, two chapters are devoted to it.

Chapter 6 examines how to develop this model. Chapter 7 shows how you can use it to predict the change in the exchange rate.

Part III: Understanding Long-Term Concepts and Short-Term Risks

The first two chapters in Part III are related to the MBOP, which Part II examines. Among them are the concepts of interest rate parity (see Chapter 8) and purchasing power parity (see Chapter 9). These concepts relate the changes in the exchange rates to the interest rate and inflation rate differential, respectively. The last chapter in this section, Chapter 10, discusses foreign exchange derivatives such as forward, futures, and options contracts. Multinational firms use these financial instruments to hedge against exchange rate risk and investors use them to speculate.

Part IV: Conducting a Background Check: Currency Changes through the Years

Part IV is about exchange rate regimes and alternative international monetary systems. This subject requires discussing underlying macroeconomic subjects such as the connection between the type of money and the exchange rate regimes. Additionally, the chronological order in previous international monetary systems starts with the gold standard era of pre-1944 years (see Chapter 11). Chapter 12 examines the exchange rate regime and the associated problems during the Bretton Woods era (1944–1971), starting with the Bretton Woods Conference. Chapter 13 discusses diverse exchange rate regimes of the post-Bretton woods era, including floating and unilaterally pegged exchange rates, as well as currency crises. Finally, Part IV also examines the unique subject of the optimum currency area (OCA) and the challenges and opportunities associated with its materialization in the example of the euro (see Chapter 14).

Part V: The Part of Tens

As in every subject, there are some things you should and should not be thinking about international finance. Chapter 15 summarizes some helpful points to consider. Chapter 16 points out some misleading considerations.

Appendix

To round out the book, famous puzzles in international macroeconomics and international finance put into perspective the exchange rate determination discussed throughout the book.

Icons Used in This Book

To aid you in your reading, this book uses the following icons:

This icon is used for all kinds of examples, both numerical and conceptual, to help you better visualize the subject in question.

Whenever you need to remember something that was discussed earlier to understand the current subject, you see this icon.

TECHNICAL STUFF Sometimes the subject matter of international finance gets a bit academic — it can't help itself. This icon helps you weed through these more technical concepts — read them if you want a deeper understanding of subjects; otherwise, just pass them by.

TIP Sometimes thinking about a subject in a certain way is helpful in learning. This icon is used whenever a suggestion is made.

WARNING! Some subjects or expressions are open to misunderstandings. When you see this icon, you can expect an explanation of why it's a mistake to think about the subject in a certain way.

Where to Go from Here

Starting with Part I and moving forward with successive parts gives you nice insight into international finance. Follow this approach if you want to gain control over the subject in a reasonable amount of time.

But if you want, you can focus on one part at a time. For example, if you're more interested in the fixed vs. flexible debate or how the euro works, start reading the chapters in Part IV. If you want to know what depreciates or appreciates a currency against other currencies, start reading the chapters in Part II. However you choose to tackle this subject, *International Finance For Dummies* helps you grasp the concepts and enjoy the journey.