The Role United States Play in International Currency Operations

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The United States (U.S.) has a direct influence on the international currency operations through the Federal Reserve, the Fed. The Fed is responsible for economic stability in the region by implementing relevant monetary and fiscal policies. In recent years, the Fed's role has significantly changed as the U.S. government tries to bolster the economy while at the same time expanding the oversight role of the financial system (Guttmann, 2016). It is through the Fed that the U.S. government is able to control demand and supply for money.

First, the Fed has the onus to control the interest rate in the region thus controlling the rate of borrowing. Since the interest rate is a primary driver of inflation and recession, the Fed makes sure that there is an optimal interest rate (Guttmann, 2016). In this case, when there is a lot of money in circulation, the Fed steps up and increases the interest rate (Frieden, 2015). A higher interest rate implies that the cost of borrowing will go up. Therefore, the economy will stabilize as the purchasing power of goods and products is decreased.

On the other hand, when there is a considerable low rate of money in circulation, people will have less money thus highly likely to result in a recession (Guttmann, 2016). To this end, the Fed revises the interest rate downwards to lower the borrowing cost. As a result, people will acquire loans at considerably lower cost thus increasing money in circulation (Frieden, 2015). In this case, the role of the government is to ensure that the economy stabilizes thus enhancing growth and development.

In summary, the U.S. government, through the Fed, plays a substantial role in ensuring that there are smooth international currency operations. In this case, the implementation of monetary and fiscal policies helps regulate the financial markets and institutions. To this end, it is vital to allow the government to perform its role in ensuring financial efficiency.

References

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