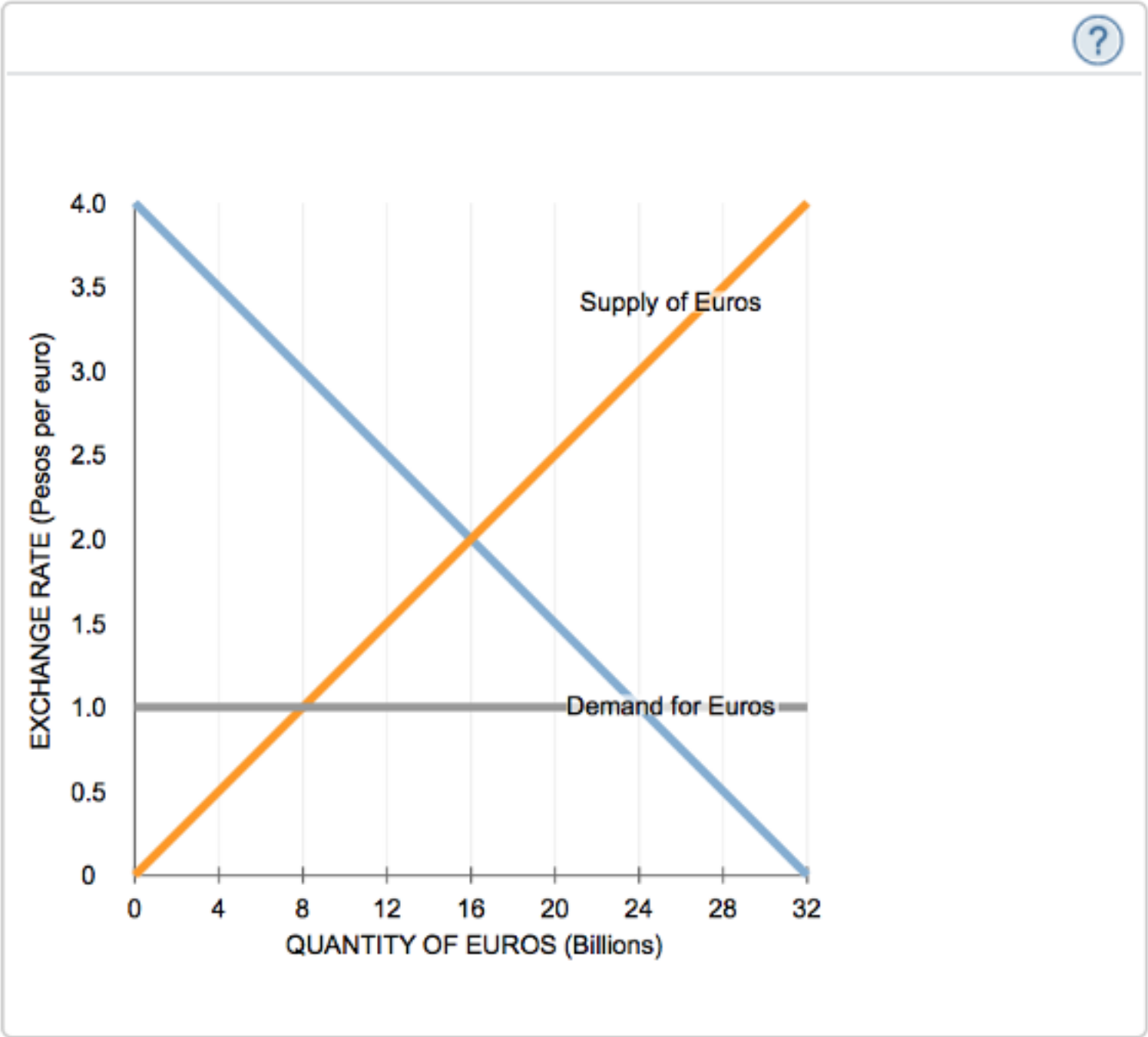


7. Fixed exchange rates

Consider the exchange rate between the Philippine peso and the euro. Suppose the Philippine government and the Eurozone governments agree to fix the exchange rate at 1 pesos per euro, as shown by the grey line on the following graph.

Refer to the following graph when answering the questions that follow.



At the official exchange rate of 1 pesos per euro, the euro is , and the Philippine peso is , which means that Filipinos pay for European exports than they would with a free-floating exchange rate.

At the official peso price of euros, there is a of euros in the foreign exchange market.

Suppose the governments in the Eurozone and the Philippines agree to change the official exchange rate from 1 pesos per euro to 2 pesos per euro. The action represents a of the euro and a of the peso.