

ANALYSIS ON THE PEGGING OF CHNESE YUAN WITH
US DOLLAR



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EXECUTIVE SUMMARY

The Chinese foreign exchange reserves have been continuously increasing by every coming year whereas its exchange rate vis-à-vis United States dollar remained the same.

The reason being that the Chinese government kept on buying the United States financial assets especially the treasury bills which resulted in the increasing demand for the US dollar and the injection of cheap cash/liquidity into the US economy.

This action on the part of Chinese government strengthened the purchasing power of the local US inhabitants who in return kept on buying the Chinese goods and services.

A peg to the dollar minimizes currency risks for foreign lenders and direct investors and it facilitates capital inflows that are so essential for the economic development in capital poor countries.

China has pegged Yuan with dollar and it is continuously increasing its exports to America. This has now become alarming for the USA economy and the USA economists want China to freely float their currency.

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