

THE APPLICABILITY OF THE OPTION EXCHANGE MARKETS IN THE CENTRAL BANK FOREIGN EXCHANGE POLICIES: THE COLOMBIA APPLICATION

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Abstract

The purpose of this study is to determine whether or not the option agreements are used in an effective manner by the central banks, as an alternative tool of intervention in their intervention in the foreign exchange markets. In that respect, the interventions of the central banks in the foreign exchange markets, and their use of the option agreements have been dealt theoretically; and the intervention program applied by the Colombia Central Bank on the option agreement has been examined. In this paper, we will test the effectiveness of the intervention of the Colombia Central Bank Banco de la Republica Colombia on the foreign exchange market by using the option agreements, on the level of exchange rate and the volatility. For this purpose, in order for the quantities of tender for the four types of option agreements used by the bank, to represent the capital movements effecting the exchange rate level as control variable, the Libor rate representing the international interest rates, and the rate of interest in Colombia are taken into consideration, and a test will be applied to determine whether there is a downward or upward sudden movements in the level of exchange rate. Based on the results to be achieved, we will attempt to form an opinion regarding the effectiveness of the option intervention program.

Key Words: Option Exchange Markets, Central Bank Foreign Exchange Policies, Colombia.

Jel Classification: F3, F47, G1, G00

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