
9-22-2000

Trends. Common Currency on Currency Interventions in a Global Economy: Psychological Considerations

IBPP Editor
bloomr@erau.edu

Follow this and additional works at: <https://commons.erau.edu/ibpp>



Part of the [International Economics Commons](#), [Other Economics Commons](#), and the [Other Psychology Commons](#)

Recommended Citation

Editor, IBPP (2000) "Trends. Common Currency on Currency Interventions in a Global Economy: Psychological Considerations," *International Bulletin of Political Psychology*. Vol. 9 : Iss. 10 , Article 3. Available at: <https://commons.erau.edu/ibpp/vol9/iss10/3>

This Trends is brought to you for free and open access by the Journals at Scholarly Commons. It has been accepted for inclusion in International Bulletin of Political Psychology by an authorized administrator of Scholarly Commons. For more information, please contact commons@erau.edu.

Title: Trends. Common Currency on Currency Interventions in a Global Economy: Psychological Considerations

Author: Editor

Volume: 9

Issue: 10

Date: 2000-09-22

Keywords: Currency, Economics

One important decision for a nation-state and an organization of nation-states is when to intervene to shore up a currency. For example, as a currency depreciates, imports may become more expensive and this can lead to inflation, higher interest rates, a stock market drop, even a recession as various domestic economic activities suffer. Also possible is a decreased sense of national self-worth when it is linked to the value of a currency. On the other hand, currency depreciation can lead to some positive consequences such as cheaper exports nurturing aspects of the domestic economy and, in some circumstances, attracting foreign investment and tourism. Various interactions of the negative and positive render the decision to intervene even more complex.

Even when the decision to intervene is made, the probability of success--here, to increase a currency's value--is not easy to assess in a global economy. For example, the huge size of foreign exchange markets makes it quite difficult to assume that a significant government intervention to buy up its currency and sell others will be successful. According to conventional wisdom, the psychological conundrum of this difficulty is as follows. If there are sound market rationales for a currency's depreciation, government intervention will probably fail. If a currency's depreciation is based largely on some collective phenomenon variously termed "herd psychology" or "mass hysteria," government intervention will have a greater probability of success. In the former case, government intervention cannot contend with economic laws. In the latter, intervention can contend with psychological laws.

However, how does anyone know for sure which of the two conventional scenarios apply? Individuals caught up in mass hysteria or a herd psychology usually do not believe that they are. They believe that there are lawful economic phenomena at work or even unlawful phenomena that in the future will qualify as law. Thus, the phenomenologies of people who are allegedly characterized by one of two conventional scenarios seem to be equivalent during a time of currency depreciation and deliberation of government intervention. Even after intervention has or has not occurred and the currency in question has or has not changed in value, the so-called lessons learned are equally captive to equivalent phenomenologies. Intervention success, failure, and the very causal status with currency value cannot be divorced from respective phenomenologies.

Perhaps economics continues to be the dismal science because even in its quest for the objective and quantifiable it is only a tragic-comedic masquerade of human belief systems--systems that are touched to the quick with the irrational, the emotional, and the unconscious. (See Bonetti, S. (1998).

Experimental economics and deception. *Journal of Economic Psychology*, 19, 377-395; Grasmuck, S., & Espinal, R. (2000). Market success or female autonomy?: Income, ideology, and empowerment among microentrepreneurs in the Dominican Republic. *Gender and Society*, 14, 231-255; Mueller-Peters, A. (1998). The significance of national pride and national identity to the attitude toward the single European currency: A Europe-wide comparison. *Journal of Economic Psychology*, 19, 701-719; Mueller-Peters, A., et al. (1998). Explaining attitudes towards the euro: Design of a cross-national study. *Journal of Economic Psychology*, 19, 663-680; Ostaszewski, P., Green, L., Myerson, J. (1998). Effects of inflation

International Bulletin of Political Psychology

on the subjective value of delayed and probabilistic rewards. Psychonomic Bulletin and Review, 5, 324-333.) (Keywords: Currency, Economics.)