

Exchange rate regime changes and market efficiency: An event study

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Abstract-

This study conducts a pioneering assessment of the efficiency of floating versus pegged exchange rate regimes and the effect of regime changes on market efficiency. Using daily exchange rates and fractal analysis, we characterize 81 currencies over a period of 23 years. The extensive sample covers 86.6 % of IMF members and 77.8 % of global GDP. The findings reveal high market efficiency in floating regimes, while pegged regimes display predominantly mean-reverting behavior. In addition, from the difference-in-differences and panel event study methodologies, we present new evidence indicating positive (negative) effects on efficiency when shifting to floating (pegged) regimes, with movements unfolding gradually over time.

Index Terms- Foreign Exchange Market; Exchange Rate Regime; Market Efficiency; Event Study; Fractals; MF-DFA

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Citation:

Corzo, T.; Martín-Bujack, K.; Portela, J.; Rodríguez-Gallego, A. "Exchange rate regime changes and market efficiency: An event study", Journal of International Financial Markets, Institutions and Money, vol.100, pp.102132-1-102132-25, April, 2025.