

Abstract

The main purpose of this dissertation is to solve the following question: “how will the emergence of the Euro influence the currency composition of the NICs’ monetary reserves?” Taiwan and Thailand are chosen as our investigation subjects. There are two sorts of motives for central banks’ reserve holdings, i.e., intervention-related motives and portfolio-related motives. The need for reserve holdings resulting from intervention-related motives are justified because of the costs resulting from exchange rate instability. On the other hand, we use the Tobin--Markowitz model to justify the need for monetary reserves held for portfolio-related motives. The operational implication of this distinction is the separation of monetary reserves into two tranches corresponding to different objectives. An analysis of a central bank’s transaction balance is a money quality analysis. Such an analysis has to do with transaction costs and non-pecuniary rates of return. The facts point out, that the Euro’s emergence will not change the fact that the USD will continue to be the major currency of transaction balances of the central banks in Taiwan and Thailand. In order to answer the question about diversification of monetary reserves as idle balance in the two NICs, we carry out an analysis of the portfolio approach, which is based on the basic ideas of the Tobin-Markowitz model. This analysis shows that Taiwan and/or Thailand respectively cannot reduce risk at a given rate of return or increase the rate of return at a given risk by diversifying their monetary reserves as idle balance from the USD to the Euro.