A Comprehensive Study of Dollar Hegemony, Quantitative Easing, and the Foreign Exchange Market

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On September 13th, 2012, The United States Federal Reserve Board voted for the third time in its history to begin a Quantitative Easing Policy (Q.E.P.), a $40-90 billion a month, open-ended, bond and mortgage-backed security purchasing program. Economic research has not yet studied the impact of a Q.E.P. on the foreign-exchange market. Data was collected from the Federal Reserve Economic Research database. This study conducted statistical analysis testing to determine the extent of impact that a Q.E.P. has on the foreign-exchange market by analyzing exchange rate values around the date of announcement. T-tests, percent testing, and mean testing were conducted on the 2008, 2010, and 2012 Q.E.P. While the hypothesis was supported that Q.E.P. forces negative pressure on dollar value, it was determined that, although Asian currency and composite currency rates react minimally to the announcement, Northern European and North American currency rates substantially react to the announcement. Q.E.P. 1 was also shown to have an appreciating effect on dollar value, while Q.E.P. 2 and 3 were shown to have a depreciating effect, with diminishing marginal returns throughout

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