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Contents

Editor's Note	3
Articles	
A profile of the NZ dollar foreign exchange market <i>Nick Smyth</i>	5
Price changes by firms in New Zealand – some evidence from the Quarterly Survey of Business Opinion <i>Andrew Coleman and Brian Silverstone</i>	18
Payments and the concept of legal tender <i>Nick McBride</i>	31
For the record	
Discussion papers	35
News releases	37
Publications	43
Articles and speeches in recent issues of the Reserve Bank <i>Bulletin</i>	44

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Editor's Note

Over recent years, a range of indicators and much anecdotal evidence has pointed to a significant increase in trading activity in the New Zealand dollar (NZD). In the first article of this issue, Nick Smyth of the Financial Stability Department undertakes an in-depth look at trends in New Zealand's foreign exchange (FX) market for the period from 2001 to 2006. He does so using data drawn from Spot Matching from Reuters, an electronic trade matching system used by the banks to trade the New Zealand dollar globally. This system tracks trading activity in real time and in many dimensions, providing a rich dataset for analysis. We are grateful to Reuters for permission to use this data for the purposes of this article.

Nick's article reveals a significant increase in trading volumes and a general increase in liquidity within the NZD market. Two case studies in the article demonstrate the speed with which the FX market is able to absorb and reflect new information in pricing as it comes to hand.

In the second article, Andrew Coleman of the Economics Department and Brian Silverstone (University of Waikato and NZIER Research Associate) review research undertaken by central banks to try and understand firm-level pricing behaviour. This international research has revealed considerable diversity in the way firms alter prices and has contemplated the driving factors behind those decisions.

To date, little research has been done on this topic in New Zealand. Using data drawn from the New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion, Andrew and Brian present some preliminary evidence, which appears broadly in line with the international studies. New Zealand firms also appear to display considerable diversity in the frequency with which they adjust prices. It appears firms tend to adjust prices more in response to cost changes than demand changes and prices appear to respond more in the face of negative demand changes than positive demand changes. Andrew and Brian indicate a range of future research possibilities in this area.

In the third article, the Bank's Legal Counsel, Nick McBride, briefly explores the concept of legal tender. Although legal tender is a concept that few people actively contemplate when making transactions, Nick explains that without the

safeguard of legal tender, cash transactions could not always take place with sufficient certainty to satisfy the needs of consumers and sellers. Nick illustrates the concept with a few practical examples that draw on the experience of New Zealand's recent change-over to new, lighter coins.

This is my last issue as editor of the *Bulletin*, having held the role for the past three years. The new editor will be Tim Ng of the Bank's Economics Department, who will take over the reins with the December 2007 issue. I am sure Tim will continue to strive to make the *Bulletin* a useful source for those interested in topics related to monetary policy, financial stability and central banking in general.

Bernard Hodgetts

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 **RESERVE
BANK**
MUSEUM

The Reserve Bank Museum celebrates and records New Zealand's economic and banking heritage.

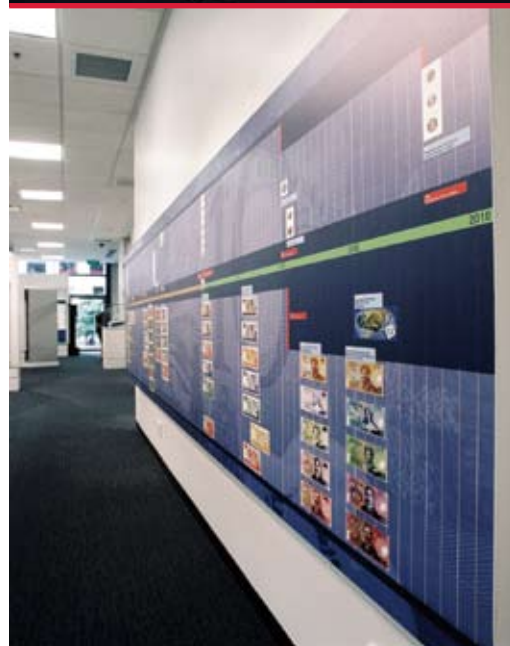
New displays for 2007 include the only working example in New Zealand of the MONIAC hydro-mechanical econometric computer developed by New Zealand economist and inventor Bill Phillips in the late 1940s.

Between July and November 2007 the museum is also hosting an exhibition of coins from the collection of James Berry, designer of New Zealand's decimal coins, celebrating his life and the fortieth anniversary of decimalisation.

Open 9.30 a.m.–4.00 p.m. weekdays.
Closed weekends, public holidays, and for special events. Please call to confirm opening hours.

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<http://www.rbnz.govt.nz/about/museum/2766074.html>



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