International markets must be allowed to correct and reprice risk

Soumadeep Ghosh

Kolkata, India

Abstract

In this paper, I describe why international markets must be allowed to correct and reprice risk.
The paper ends with "The End"

Introduction

In a previous paper, I've described a money function for a planet with 3 world wars.
In this paper, I describe why international markets must be allowed to correct and reprice risk.

International pricing of risk

Let $R_{A,B} = R_{B,A} = R \neq 0$ be the international risk between two nations A and B.
Let C_A be the currency of nation A.
Let C_B be the currency of nation B.
Let P_A be the price of R in currency C_A in nation A.
Let P_B be the price of R in currency C_B in nation B.
Then we must have

$$\frac{R}{P_A C_A} = \frac{R}{P_B C_B}$$

Elimination of risk requires allowing the market to correct and reprice risk

Eliminating R gives us the inverse relation between
the ratio of prices of risk and the ratio of exchange rate of currencies.

$$\frac{P_A}{P_B} = \frac{C_B}{C_A}$$

The only **general equilibrium solution** to equation above is

$$\frac{P_A}{P_B} = \frac{C_B}{C_A} = 1$$

Therefore, international markets must be allowed to correct and reprice risk.

The End