rates stable. By maintaining fixed exchange rates against the dollar, these countries may be able to “to reduce both the volatility of the exchange rate (nominal and real) and the volatility of the inflation rate and also to minimise fluctuations in output, consumption, or some other macroeconomic variable” (Bouoiyour and Rey 2002). But the dollar’s role as a nominal anchor can only be successful if the US price levels are stable and other trading countries also maintain a fixed exchange rate with the US dollar as it may become unsustainable and eventually lead to serious exchange rate misalignments.