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Tiivistelmä-Referat-Abstract The world economy has witnessed increasingly frequent currency crises in recent years. The Finnish currency crisis and the resultant depression provide a very valuable case study for understanding the reasons for a currency crisis, the monetary policy options and agent behavior before and during the crisis. The central bank's monetary policy has an important role to play before and in the midst of a currency crisis. This paper develops a theoretical model to analyze monetary policy and currency crisis. The switch of an exchange rate regime is considered as the result of an optimizing decision by the policymaker. The emphasis is on the optimal decision-making of the central bank and its impact on economic activity. A banking sector is modeled so that interest rates can be determined endogenously. The optimal behavior of the consumer and firm are also taken account of. Here the interaction between the bank and the firm is set in a Stackelberg game framework. The bank is the Stackelberg leader, which sets a lending rate first. Then the firm reacts with a desirable level of bank loan. The central bank's optimal decision on the exchange rate is based on the interaction of all other agents. The central bank faces conflicting interests in deciding the exchange rate, which will have different impacts on the open and closed sectors of the economy. Under a fixed exchange rate system, the dynamic-inconsistency problems the central bank faces result in multiple solutions. The model shows that two equilibria could exist. The first one features no deviation of the private sector's expectations from the fixed exchange rate system. Then it is always in the central bank's interest to maintain the fixed exchange rate. There will be no speculative attack, and the fixed exchange rate system can be sustained. The second one features a currency crisis as the change in expectations validates a change in economic fundamentals, which makes the change in the exchange rate ideal given the central bank's policy preferences. Thus the currency crisis is really self-fulfilling.			
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