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**TITLE: OPTIMUM EXCHANGE RATE POLICY FOR THE SAUDI RIYAL**

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**ABSTRACT:**

The Saudi riyal for long time has been pegged to dollar at 3.75 Saud Riyal for each dollar. During last three decades, Saudi economy was faced with up and down fluctuations of oil prices. This leads to the debate if the Saudi authority shell accept fluctuations of the riyal or peg the currency to a basket instead of a fixed exchange rate. In this paper I am comparing fixed a exchange rate with basket peg and a optimum basket that is more appropriate for Saudi economy by using a dynamic applied general equilibrium model.