**Exchange Rates**

**LVL1 Answer the following questions as you read**

1. Define exchange rate.
2. What must you do before you make a transaction in a foreign country?
3. What happens when a currency appreciates?
4. What happens when a currency depreciates?
5. Who benefits from changes in currency values?
6. Who is hurt by changes in currency values?

**SSEIN3 Explain how changes in exchange rates can have an impact on the purchasing power of groups in the United States and in other countries.**

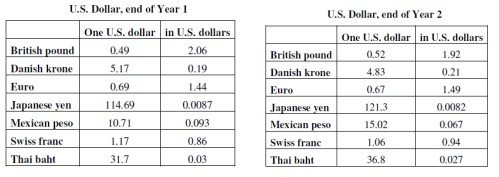
An **Exchange Rate** refers to the price of one country’s currency express in terms of another country’s currency. Anyone buying products from another country, selling products to people in other countries, traveling to other countries, or depending on travelers from other countries cares about changes in the exchange rate. For people to do business with people in other countries, they must acquire the currency accepted by people in those countries. As the price of a currency rises and falls relative to another currency, people who buy, sell, and earn in that currency will experience a change in how much of the other country’s currency they can buy.

1. **Define exchange rate as the price of one nation’s currency in terms of another nation’s currency.**

An **Exchange Rate** refers to the price of one country’s currency express in terms of another country’s currency. For example, on April 27, 2017, the price of one dollar expressed in euros was .92 euros.

1. **Interpret changes in exchange rates, in regards to appreciation and depreciation of currency.**

Most exchange rates between currencies fluctuate based on supply and demand. The terms appreciation and depreciation describe changes in the value of one currency in terms of another. **Appreciation** refers to an increase in the value of a currency relative to another. **Depreciation** refers to a decrease in value of one currency relative to the other. In the table below shows the price of the U.S. dollar expressed in terms of other currencies for Year 1 and Year 2. In Year 1, a dollar cost .49 pounds. In Year 2, a dollar cost .52 pounds. Since the dollar was more expensive for people holding British pounds in Year 2 than in Year 1, the dollar appreciated against the pound. In Year 1, a dollar cost 5.17 Danish krone. In Year 2, a dollar cost 4.83 krone. Since the dollar cost less for people holding Danish krone in Year 2 than in Year 1, the dollar depreciated against the krone.



1. **Explain why some groups benefit and others lose when exchange rates change.**

When a country’s currency appreciates against another currency, it means those who hold the appreciated currency can buy more of the other country’s currency. If a country’s depreciates, those who hold the depreciated currency can buy less of the other country’s currency. For example, assume the United States and Japan are trading partners. Due to the popularity of Japanese Anime in the United States, people in the U.S. demand for yen because they need Japanese currency to buy Japanese goods. As the demand for yen rises, the yen appreciates in the foreign exchange market. The higher price of yen will make Japanese goods more expensive for U.S. consumers and Japanese exports to the United States will decrease. However, the higher value of the yen will allow people in Japan to import more goods, more cheaply from the United States. Therefore, while the appreciation of the yen hurts

Japanese exporters, U.S. exporters to Japan benefit from the increased Japanese consumption of U.S. goods. U.S. tourists visiting Japan are harmed by the increased price of the yen, but Japanese tourists coming to the U.S. are helped because they can buy more.

**LVL2 Consider the following**

1. If the interest rates in Japan go up, the cost of borrowing money in Japan goes up. If Japanese money becomes more expensive than the U.S. dollar, then what will begin to happen to the demand for Japanese yen?
2. If the U.S. economy was in a major recession, what would that mean for foreign buyers of U.S. products?

**LVL 3 Do the following**

1. Draw a supply and demand curve for U.S. dollars. What happens to the value of the dollar when demand for the dollar declines?
2. Does it appreciate or depreciate in value?
3. Look up the exchange rate for Great Britain and Japan. Based on the current information, where might a U.S. traveler be more likely to travel if they made their decision solely on exchange rates?