

6 Exchange rates and inflation – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)
exchange rate	_____
appreciation	_____
depreciation	_____
exporter	_____
Inflation	_____

Recall

Two more external influences are the exchange rate and inflation.

New ideas

Read these first, then do the Practice.

■ 1 Exchange rates

The **exchange rate** is the price of one currency in terms of another:

currency up (appreciation):

exports dearer, imports cheaper

currency down (depreciation):

exports cheaper, imports dearer

- **appreciation** (the currency rises) → exports dearer, imports cheaper;
- **depreciation** (the currency falls) → exports cheaper, imports dearer.

So an **exporter** often gains from a weaker currency.

■ 2 Inflation

Inflation is a general rise in prices over time:



High inflation raises a firm's costs and makes planning harder.

Watch out: appreciation (strong currency) → exports *dearer*, imports *cheaper*; depreciation (weak currency) → exports *cheaper*, imports *dearer*. A handy memory aid is SPICED – Strong Pound, Imports Cheaper, Exports Dearer.

Practice

Try these in order.

6.6 What is the *exchange rate*?

[1]

6.7 What is *appreciation* of a currency? [1]

6.8 When the local currency depreciates, what happens to exports abroad? [1]

6.9 Who tends to gain from a weaker currency – exporters or importers? [1]

6.10 Give one problem high inflation causes a business. [1]

6.11 Challenge. A country's currency falls in value (depreciates). Explain why a business that *exports* its products is likely to benefit. [2]
