A-LEVEL ECONOMICS • EXERCISE SHEET

6.4 Exchange rates

Name: ______________ Class: __________ Date: ____________ **Total: 26 marks**

Objective

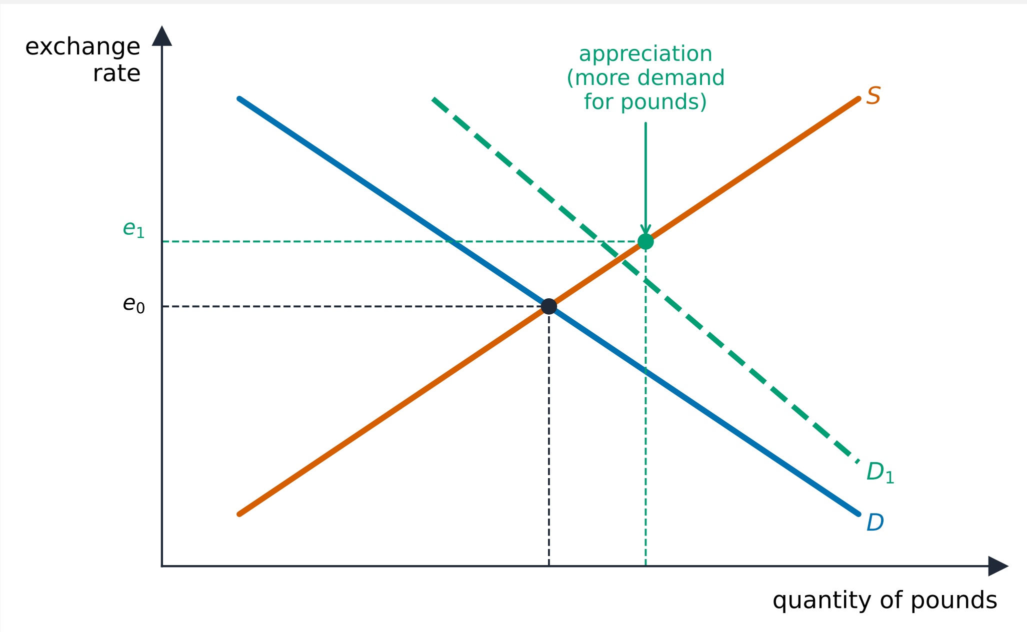
Build the skills to answer exam questions on **exchange rates** 汇率—**floating, fixed and managed** 浮动、固定、管理浮动 systems, and **appreciation and depreciation** 升值与贬值 and their effects.

You must be able to:

- define the three exchange-rate systems
- explain how demand and supply set a floating rate
- analyse the effects of a depreciation on trade and inflation

1 Worked examples

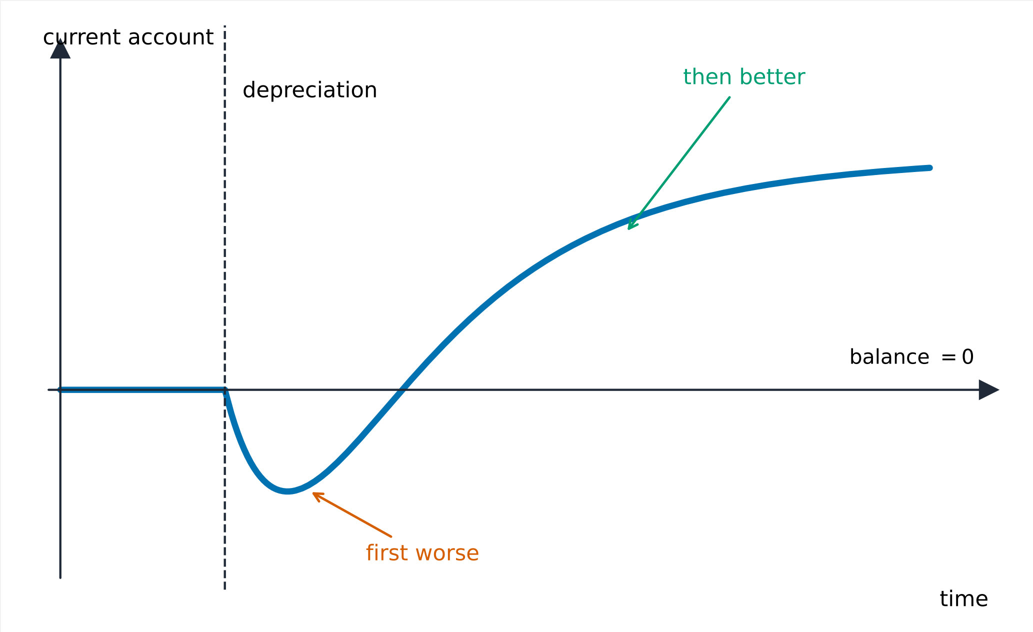
■ A floating exchange rate



A floating rate is set where demand for the currency meets supply

- **Floating** 浮动汇率: set by demand and supply. **Fixed** 固定汇率: held by the central bank. **Managed** 管理浮动: mostly floats, occasional intervention.
- **Appreciation** 升值: the currency rises → exports dearer, imports cheaper.

- **Depreciation 贬值**: the currency falls → exports cheaper, imports dearer → can help the current account but raise inflation.



The J-curve: a depreciation worsens the trade balance before it improves (volumes adjust slowly)

Answer shapes: an **Explain** [**up to 8**] answer may use a currency demand–supply diagram (AO3); **Discuss** [**12**] adds a judgement (AO4).

2 Practice

2.1 Define the term *exchange rate.* [2]

2.2 State the effect of a **depreciation** on the price of exports and imports. [2]

2.3 State the difference between a *floating* and a *fixed* exchange rate. [2]

3 Exam-style questions

3.1 A depreciation of a country's currency will make its: [1]

- **A** exports dearer and imports cheaper
- **B** exports cheaper and imports dearer
- **C** exports and imports both cheaper
- **D** exports and imports both dearer

3.2 Using a currency demand and supply diagram, explain how a rise in demand for a country's exports affects its exchange rate. [8]

3.3 Discuss whether a depreciation of the currency is good for an economy. [12]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **6.4 Exchange rates** past-paper sheet in the Library, or try these in **Practice mode**:

- 9708/11 N25 —Q20 (exchange rates)
- 9708/11 N25 —Q30 (appreciation/depreciation)
- 9708/13 N25 —Q20 (exchange-rate systems)

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 the price of one currency in terms of another (2 for a clear definition; 1 for a partial idea).

2.2 exports become cheaper (to foreigners) and imports become dearer (2 for both; 1 for one).

2.3 a floating rate is set freely by demand and supply; a fixed rate is held at a set value by the central bank (2 for a clear difference; 1 for a partial idea).

3.1 B. A depreciation makes exports cheaper and imports dearer.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (demand for the currency shifts right, rate rises) + AO2/AO3 up to 3 —foreigners buying more exports must buy the currency → demand for it rises → with supply unchanged, the exchange rate rises (an appreciation).

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Good:** cheaper exports and dearer imports can raise net exports, improving the current account and supporting jobs. **Bad:** dearer imports raise costs and can cause cost-push inflation; the benefit depends on the **Marshall–Lerner condition** (elastic demand) and may be slow (the J-curve). Judgement: a depreciation helps if export and import demand are elastic, but it risks inflation —its effect depends on elasticities and the cause of the fall.