A-LEVEL ECONOMICS • EXERCISE SHEET

11.2 Exchange rates

Name: ____________ Class: ________ Date: __________ **Total: 27 marks**

KEY WORDS revaluation 法定升值 • exchange rates 汇率 • devaluation 法定贬值 • nominal 名义 • real 实际

Objective

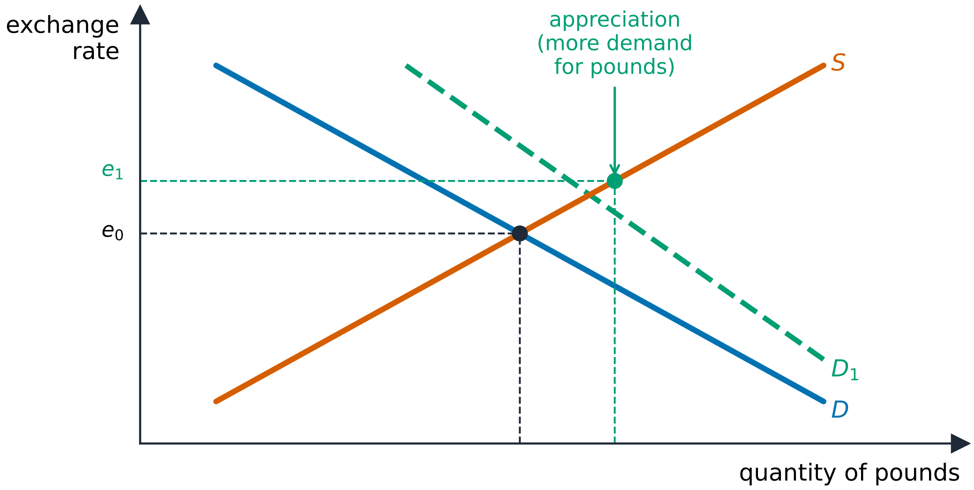
Build the skills to answer exam questions on **exchange rates** 汇率 at A Level — the **nominal, real and effective** 名义、实际、有效 exchange rate, the three systems, and **appreciation, depreciation, revaluation and devaluation** 升值、贬值、法定升值、法定贬值.

You must be able to:

- distinguish nominal, real and trade-weighted (effective) exchange rates
- describe floating, fixed and managed systems
- analyse the effects of a change in the exchange rate

1 Worked examples

■ Measuring and changing the rate

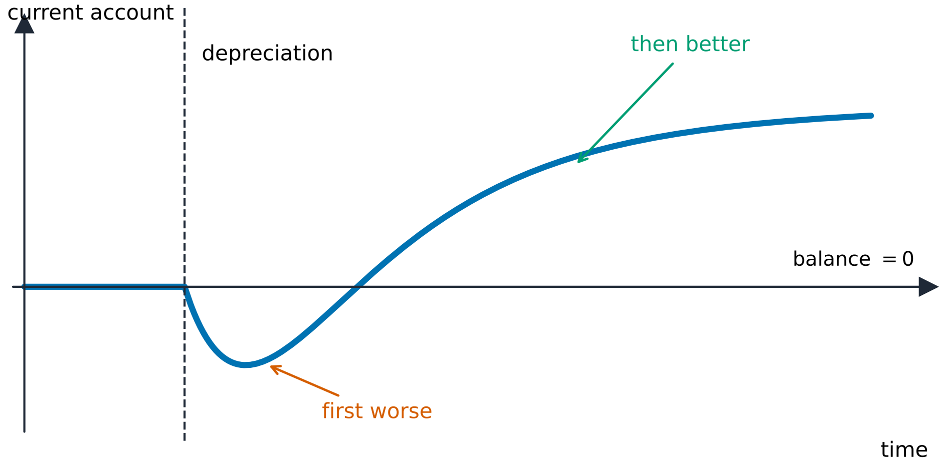


floating: D and S set e · $D\uparrow \Rightarrow$ appreciate

More demand for the currency raises its value — an appreciation

- **Nominal** 名义: the everyday market rate. **Real** 实际: adjusted for price differences (true competitiveness). **Effective/trade-weighted 有效**: an average against all trading partners.

- **Systems:** floating, fixed, managed.
- Floating: **appreciation 升值** / **depreciation 贬值**. Fixed: **revaluation 法定升值** / **devaluation 法定贬值**.



J-curve: after depreciation, CA first worse then better

A rate change takes time to bite: the J-curve traces the trade balance afterward

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

2 Practice

2.1 State the difference between the *nominal* and the *real* exchange rate. [2]

2.2 Define the term *effective (trade-weighted) exchange rate.* [2]

2.3 State the difference between a *depreciation* and a *devaluation.* [2]

3 Exam-style questions

3.1 Under a **fixed** exchange-rate system, a deliberate fall in the currency's value is a: [1]

A | B
C | D

A depreciation
B appreciation
C devaluation
D revaluation

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

3.3 Discuss whether a fixed exchange rate is better than a floating exchange rate. [12]