A-LEVEL ECONOMICS • EXERCISE SHEET

# 6.4 Exchange rates

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

**KEY WORDS** exchange rate 汇率 • floating 浮动汇率 • depreciation 贬值 • fixed 固定汇率 • appreciation 升值

## Objective

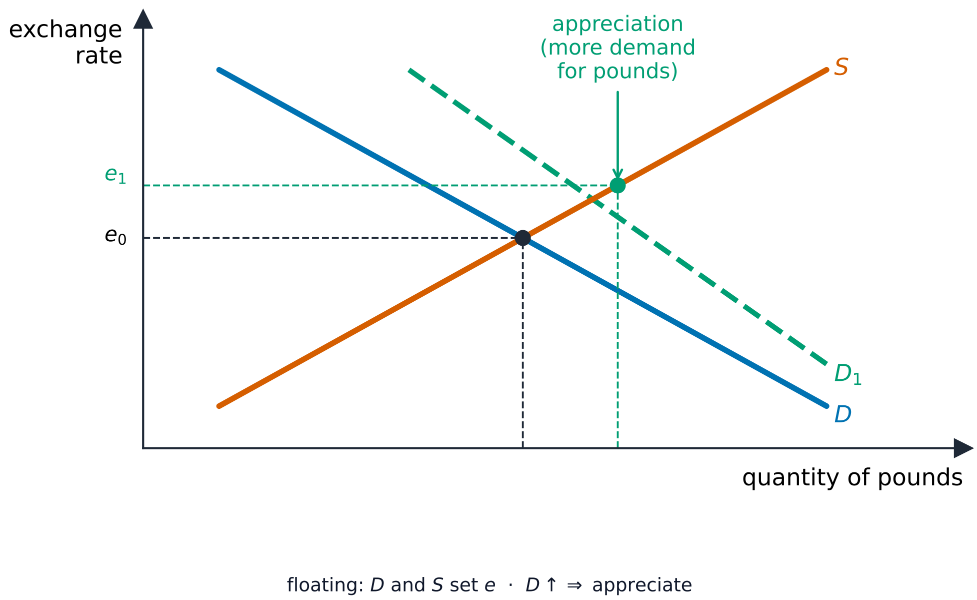
Build the skills to answer exam questions on **exchange rates 汇率 — floating, fixed and managed 浮动、固定、管理浮动** systems, and **appreciation and depreciation 升值与贬值** and their effects.

**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

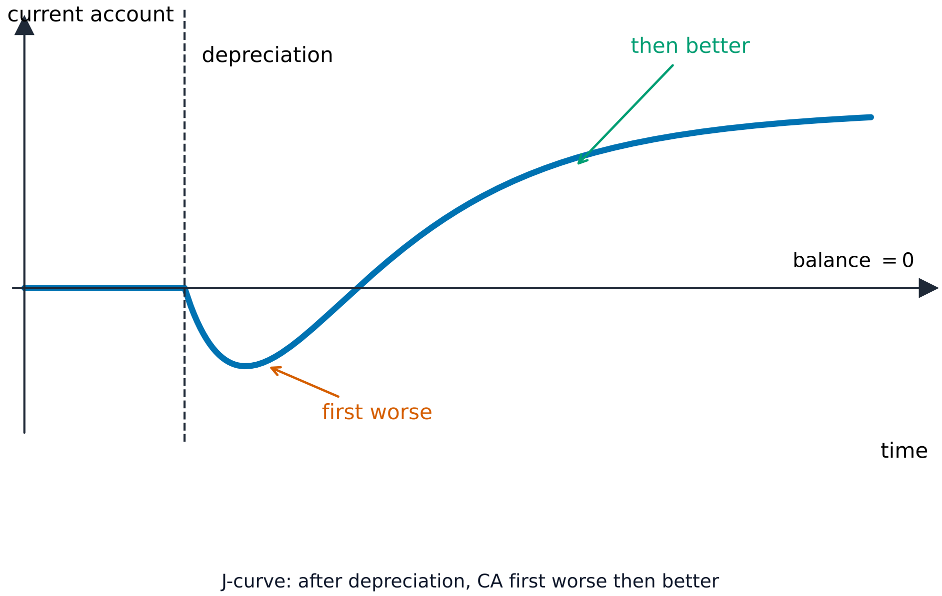
### ■ A floating exchange rate




*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 | B |
|---|---|
| C | D |

**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]