

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

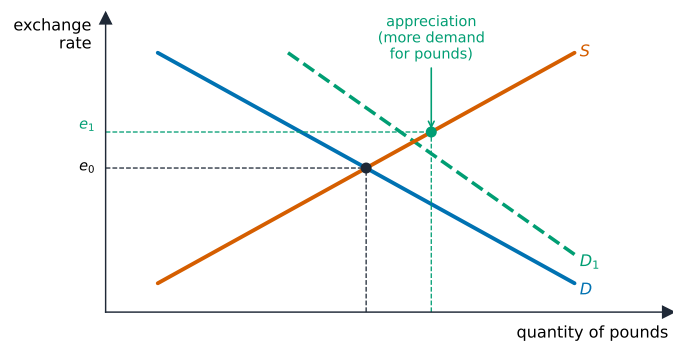
Build the skills to answer exam questions on **exchange rates** 汇率 — **floating**, **fixed** and **managed** 浮动、固定、管理浮动 systems, and **appreciation** and **depreciation** 升值与贬值 and their effects.

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

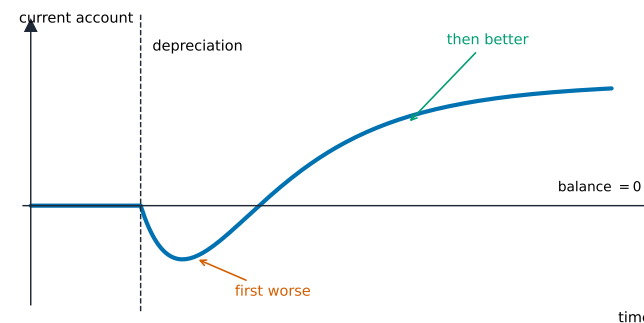


floating: D and S set e • $D \uparrow \Rightarrow$ appreciate

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



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

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]