Exercise walk-through

Exchange Rates ▪ 6.2

eXercise

You must be able to

- define an **exchange rate 汇率** as the price of one currency in terms of another
- distinguish **appreciation 升值** from **depreciation 贬值**
- explain how a **floating exchange rate 浮动汇率** is set by supply and demand

Method — Exchange rate

The **price of one currency** measured in another (e.g. $\$1 = €0.90$).

Method — Appreciation vs depreciation

A currency **appreciates** when it gains value (buys more foreign currency) and **depreciates** when it loses value.

Method — Floating rates

A floating exchange rate is set by the **supply of** and **demand for** the currency in the foreign exchange market.

Practice 2.1 ▪ 1 mark

Define an exchange rate.

Solution 2.1

Worked steps

the price of one currency expressed in terms of another **B1**.

Practice 2.2 ▪ 2 marks

State the difference between appreciation and depreciation.

Solution 2.2

Method: Appreciation vs depreciation

Worked steps

appreciation is a rise in a currency's value; depreciation is a fall **B1** **B1**.

Practice 2.3 ▪ 1 mark

State how a floating exchange rate is determined.

Solution 2.3

Method: Floating rates

Worked steps

by the supply of and demand for the currency **B1**.

Exam-style 3.1 ▪ 1 mark

An exchange rate is the price of

A a good

B one currency in terms of another

C a bond

D labour

Solution 3.1

Method: Exchange rate

A a good

B one currency in terms of another ✓

C a bond

D labour

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

A currency that rises in value has

A depreciated

B appreciated

C inflated

D defaulted

Solution 3.2

A depreciated

B appreciated ✓

C inflated

D defaulted

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

The US dollar rises in value against the euro.
(a) State whether the dollar has appreciated or depreciated.
(b) State the effect on US exports to Europe.
(c) State the effect on US imports from Europe.

Solution 3.3

Worked steps

(a) appreciated **B1**. (b) they become dearer for Europeans, so US exports fall **B1**. (c) European goods become cheaper, so US imports rise **B1**.