Exercise walk-through

Changes in the Foreign Exchange Market and Net Exports ▪ 6.5

eXercise

You must be able to

- explain how a **currency appreciation 升值** lowers **net exports 净出口**
- explain how a **currency depreciation 贬值** raises net exports
- connect exchange-rate changes to shifts in **aggregate demand**

Method — Appreciation lowers net exports

A stronger currency makes exports **dearer** abroad and imports **cheaper** at home, so **net exports fall**.

Method — Depreciation raises net exports

A weaker currency makes exports **cheaper** and imports **dearer**, so **net exports rise**.

Method — Link to AD

Net exports are a component of AD, so an appreciation shifts **AD left** and a depreciation shifts **AD right**.

Practice 2.1 ▪ 1 mark

State the effect of a currency appreciation on net exports.

Solution 2.1

Method: Appreciation lowers net exports

Worked steps

they fall **B1**.

Practice 2.2 ▪ 1 mark

State the effect of a currency depreciation on net exports.

Solution 2.2

Method: Depreciation raises net exports

Worked steps

they rise B1.

Practice 2.3 ▪ 2 marks

Explain how a currency appreciation affects aggregate demand.

Solution 2.3

Method: Appreciation lowers net exports

Worked steps

an appreciation lowers net exports **B1**, which shifts aggregate demand to the left **B1**.

Exam-style 3.1 ▪ 1 mark

A currency appreciation makes a country's exports

A cheaper abroad

B dearer abroad

C unchanged in price

D free

Solution 3.1

Method: Appreciation lowers net exports

A cheaper abroad

B dearer abroad ✓

C unchanged in price

D free

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

A depreciation of the currency

A raises net exports

B lowers net exports

C has no effect on net exports

D lowers the price of imports

Solution 3.2

Method: Depreciation raises net exports

A raises net exports ✓

B lowers net exports

C has no effect on net exports

D lowers the price of imports

Worked steps

A.

Exam-style 3.3 ▪ 1 mark

A country's currency depreciates.

(a) State the effect on the price of its exports abroad.

(b) State the effect on net exports.

(c) State the effect on aggregate demand.

Solution 3.3

Method: Appreciation lowers net exports

Worked steps

(a) they become cheaper **B1**. (b) net exports rise **B1**. (c) AD shifts right (increases) **B1**.