

# 6.2 Exchange Rates

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Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

Total: 9 marks

## Objective

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Build the skills to answer exam questions on **exchange rates**.

**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

## 1 Worked examples

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Study these first. Each one shows the method for a question type used later.

### ■ Exchange rate

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

### ■ Appreciation vs depreciation

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

### ■ Floating rates

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

## 2 Practice

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2.1 Define an exchange rate. [1]

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2.2 State the difference between appreciation and depreciation. [2]

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2.3 State how a floating exchange rate is determined. [1]

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### 3 Exam-style questions

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3.1 An exchange rate is the price of [1]

- A a good
  - B one currency in terms of another
  - C a bond
  - D labour
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3.2 A currency that rises in value has [1]

- A depreciated
  - B appreciated
  - C inflated
  - D defaulted
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3.3 The US dollar rises in value against the euro.

(a) State whether the dollar has appreciated or depreciated. [1]

(b) State the effect on US exports to Europe. [1]

(c) State the effect on US imports from Europe. [1]

### 4 Go further

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- work through the **6.2 Exchange Rates** lesson on the **Learn** page;
- read the **Open Economy** section of the AP Macroeconomics handout on the **Know** page.

## Solutions

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

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

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

**3.1 B.**

**3.2 B.**

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