AP MACROECONOMICS • EXERCISE SHEET

6.2 Exchange Rates

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS exchange rate 汇率 • appreciation 升值 • depreciation 贬值 • floating 浮动 • floating exchange rate 浮动汇率

Objective

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

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

2.1 Define an exchange rate. [1]

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

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

3 Exam-style questions

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

3.2 A currency that rises in value has [1]

- **A** depreciated
- **B** appreciated
- **C** inflated
- **D** defaulted

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]

Solutions

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.