

# 6.5 Changes in the Foreign Exchange Market and Net Exports

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

Total: 9 marks

## Objective

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Build the skills to answer exam questions on **changes in the foreign exchange market and net exports**.

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**

## 1 Worked examples

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

### ■ Appreciation lowers net exports

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

### ■ Depreciation raises net exports

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

### ■ Link to AD

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

## 2 Practice

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2.1 State the effect of a currency appreciation on net exports. [1]

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2.2 State the effect of a currency depreciation on net exports. [1]

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2.3 Explain how a currency appreciation affects aggregate demand. [2]

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### 3 Exam-style questions

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3.1 A currency appreciation makes a country's exports [1]

- A cheaper abroad
  - B dearer abroad
  - C unchanged in price
  - D free
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3.2 A depreciation of the currency [1]

- A raises net exports
  - B lowers net exports
  - C has no effect on net exports
  - D lowers the price of imports
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3.3 A country's currency depreciates.

(a) State the effect on the price of its exports abroad. [1]

(b) State the effect on net exports. [1]

(c) State the effect on aggregate demand. [1]

### 4 Go further

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- work through the **6.5 Changes in the Foreign Exchange Market and Net Exports** 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** they fall.

**2.2** they rise.

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

**3.1 B.**

**3.2 A.**

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