

6.5 Changes in the Foreign Exchange Market and Net Exports

Name: _____ Class: _____ Date: _____ **Total: 9 marks**

KEY WORDS net exports 净出口 • currency appreciation 升值 • currency depreciation 贬值

Objective

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

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

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

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

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

3 Exam-style questions

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

- **A** cheaper abroad
- **B** dearer abroad
- **C** unchanged in price
- **D** free

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

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]

Solutions

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).