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]