6.3 The Foreign Exchange Market

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

KEY WORDS foreign exchange market 外汇市场 • exchange rate 汇率 • appreciates 升值

Objective

Build the skills to answer exam questions on **the foreign exchange market**.

You must be able to:

- model the **foreign exchange market 外汇市场** with supply of and demand for a currency
- determine the **equilibrium exchange rate**
- relate demand for a currency to demand for that country's exports and assets

1 Worked examples

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

■ Supply and demand for a currency

Foreigners **demand** a currency to buy that country's **exports** and **assets**; the currency is **supplied** when residents buy foreign goods and assets.

■ Equilibrium

The exchange rate settles where the quantity of the currency demanded equals the quantity supplied.

■ Drivers of demand

More demand for a country's exports or assets → more demand for its currency → the currency **appreciates**.

2 Practice

2.1 State what determines the demand for and supply of a currency. [2]

2.2 State what is found at the intersection of currency supply and demand. [1]

2.3 State one reason foreigners demand a country's currency. [1]

3 Exam-style questions

3.1 The equilibrium exchange rate is set by [1]

A | B
C | D

A the government alone
B supply and demand for the currency
C the CPI
D the money multiplier

3.2 Foreigners demand a currency mainly to buy that country's [1]

A | B
C | D

A debt only
B exports and assets
C imports
D labour abroad

3.3 Foreign demand for a country's exports rises.

(a) State the effect on the demand for its currency. [1]

(b) State the effect on the exchange rate. [1]

(c) Name this change in the currency's value. [1]