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]