

6 Balance of payments and exchange rates – Part 1 —Answers

Answers

Work through these after you have tried the questions yourself.

2.1 a country's trade in goods and services with the rest of the world (exports minus imports, plus income and transfers).

2.2 appreciating means gaining value (buying more foreign currency); depreciating means losing value.

2.3 $\text{€}1 = \frac{1}{0.80} = \1.25 .

2.4 it has appreciated –each dollar now buys more euros (0.90 instead of 0.80).

2.5 any of: higher domestic interest rates, higher demand for its exports, expectations that it will rise.