# 6 Balance of payments and exchange rates – Part 1

Name: ______________ Class: __________ Date: ____________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| balance of payments | 国际收支 | | | |
| current account | 经常账户 | | | |
| exchange rate | 汇率 | | | |
| appreciates | 升值 | | | |
| depreciates | 贬值 | | | |

## Recall

Countries trade and exchange currencies:

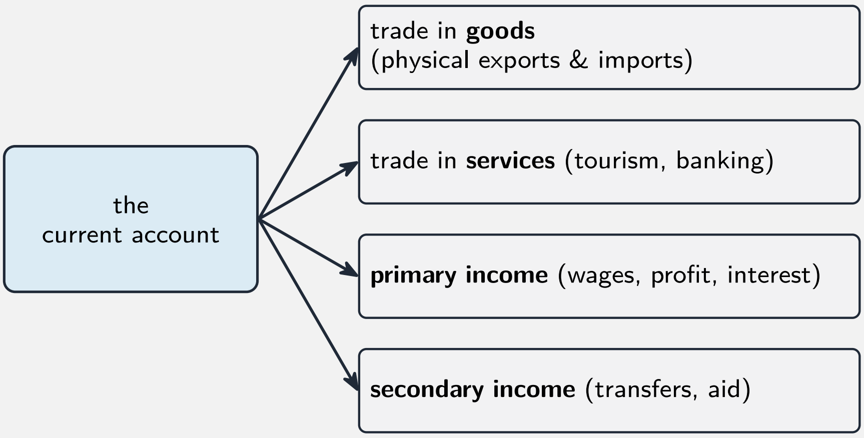
- A country buys imports and sells exports.
- To buy foreign goods you need foreign money.
- Exchange rates change –sometimes a currency is ”strong”, sometimes ”weak”.

This sheet lines up trade balances and exchange rates. Each idea has a worked example.

## New ideas

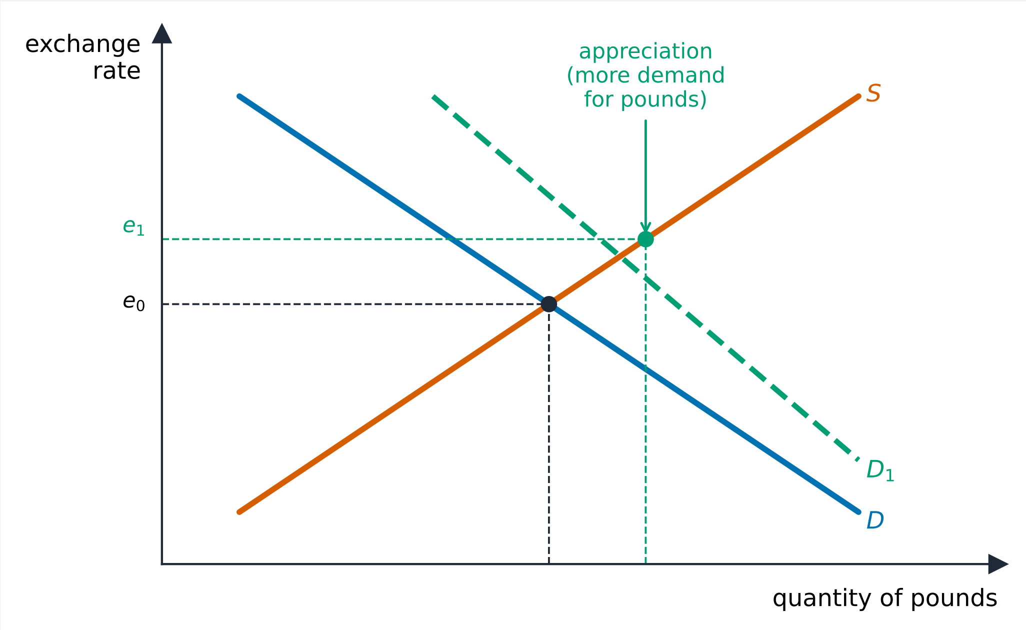
### ■ 1 The balance of payments

The **balance of payments** 国际收支 records a country’s transactions with the rest of the world. Its **current account** 经常账户 tracks trade in goods and services (exports minus imports).




## ■ 2 Exchange rates

An **exchange rate** 汇率 is the price of one currency in terms of another. A currency **appreciates** 升值 when it gains value and **depreciates** 贬值 when it loses value.




## ■ 3 Two sides of one change

Every exchange-rate change has two sides.

*Worked example.* If $\$1 = €0.90$, then $€1 = \dfrac{1}{0.90} \approx \$1.11$. If the dollar then rises to $\$1 = €1.00$, the dollar has **appreciated** and the euro has **depreciated** –the same event seen from each side.

## ■ 4 What moves exchange rates

A currency **appreciates** when demand for it rises –for example, higher domestic interest rates attract foreign investment, raising demand for the currency.

**Watch out:** an appreciation of one currency is always a depreciation of the other.

> Always track **which** currency you are describing.

## Practice

Try these in order. The methods are all above.

**2.1** State what the current account records. [2]

**2.2** State the difference between a currency appreciating and depreciating. [2]

**2.3** If \$1 = €0.80, how many dollars is €1 worth? [2]

**2.4** The dollar changes from \$1 = €0.80 to \$1 = €0.90. State whether the dollar has appreciated or depreciated. [2]

**2.5** State one reason a currency might appreciate. [1]