6 Exchange rates and trade – Part 2 —Answers

Answers

Work through these after you have tried the questions yourself.

2.1 net exports rise –a depreciation makes exports cheaper for foreigners and imports dearer, so exports rise and imports fall.
2.2 net exports fall –exports become dearer for foreigners and imports become cheaper.
2.3 after the dollar depreciates, each dollar buys fewer euros, so a euro-priced good costs more dollars.
2.4 to the right (higher net exports raise aggregate demand).
2.5 a higher interest rate attracts foreign investors seeking better returns, so demand for the currency rises and it appreciates.