IGCSE ECONOMICS • EXERCISE SHEET

6.3 Foreign exchange rates

Name: ____________ Class: ________ Date: __________ **Total: 16 marks**

Objective

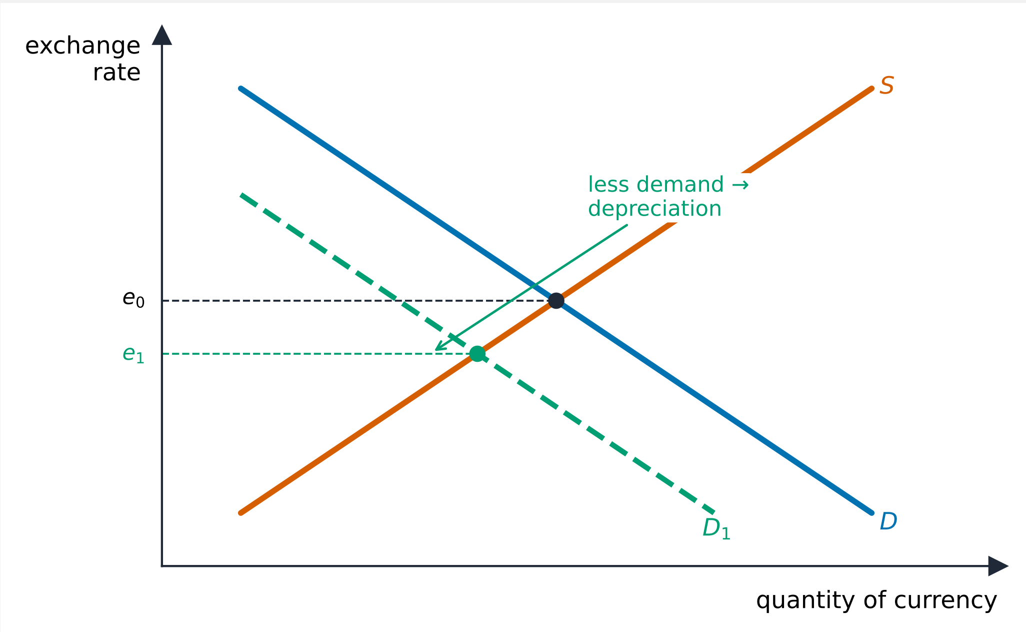
Build the skills to answer exam questions on **foreign exchange rates** 外汇汇率—how a **floating exchange rate** 浮动汇率 is set, and **appreciation and depreciation** 升值与贬值 and their effects on trade.

You must be able to:

- explain how demand and supply set a floating exchange rate
- distinguish appreciation from depreciation
- analyse the effects of a change in the exchange rate on exports and imports

1 Worked examples

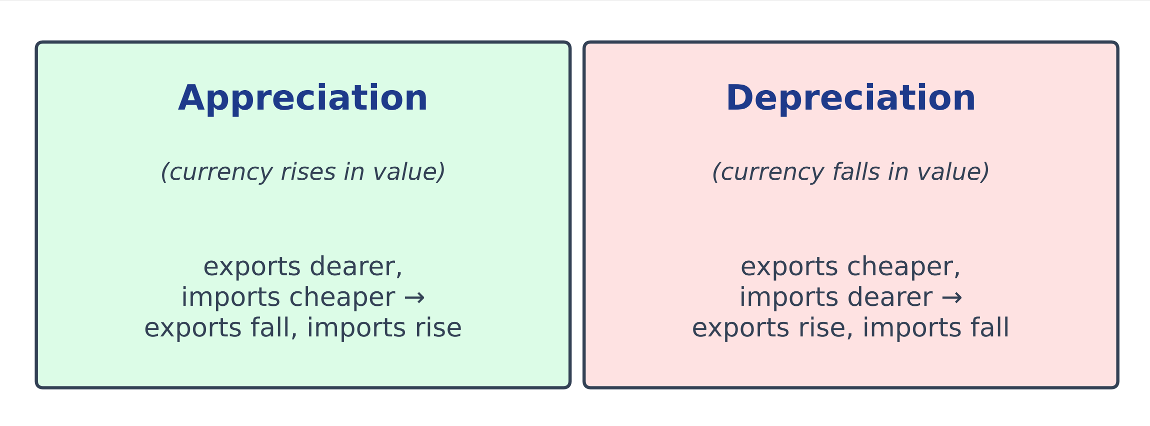
The exchange rate



The exchange rate is the price of one currency in another

- **Floating exchange rate** 浮动汇率: set by demand for and supply of the currency.
- **Appreciation** 升值: the currency rises → exports **dearer**, imports **cheaper** → exports fall, imports rise.

- **Depreciation** 贬值: the currency falls → exports **cheaper**, imports **dearer** → exports rise, imports fall.



The effects in full: appreciation versus depreciation on export and import prices and the trade balance

Answer shapes: an **Analyse** [**up to 6**] answer may use a currency diagram; **Discuss** [8] adds a judgement (Ev).

2 Practice

2.1 Define the term *exchange rate*. [2]

2.2 State the effect of a **depreciation** on the price of exports and imports. [2]

2.3 State what sets a floating exchange rate. [1]

3 Exam-style questions

3.1 When a country's currency **appreciates**, its: [1]

- **A** exports become cheaper and imports dearer
- **B** exports become dearer and imports cheaper
- **C** exports and imports both become cheaper
- **D** exports and imports both become dearer

3.2 Using a currency demand and supply diagram, explain how a rise in demand for a country's exports affects its exchange rate. [4]

3.3 Analyse how a depreciation of a country's currency affects its exports and imports. [6]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **6.3 Foreign exchange rates** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/11 N25 —Q29 (exchange rates)
- 0455/11 N25 —Q30 (appreciation/depreciation)
- 0455/13 N25 —Q20 (exchange rate and trade)

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 the price of one currency in terms of another (2 for a clear definition; 1 for a partial idea).

2.2 exports become cheaper (to foreigners) and imports become dearer (2 for both; 1 for one).

2.3 the demand for and supply of the currency (1).

3.1 B. An appreciation makes exports dearer and imports cheaper.

3.2 *[4]* K 1 + **diagram up to 2** (demand for the currency shifts right, rate rises) + An 1 —foreigners buying more exports must buy the currency → demand for it rises → with supply unchanged, the exchange rate rises (an appreciation).

3.3 *[6]* K/App/An —a depreciation lowers the currency's value → the country's exports become cheaper for foreign buyers, so they buy more → exports rise; at the same time imports become dearer for home buyers, so they buy fewer → imports fall → so a depreciation tends to raise exports and cut imports (which can improve the current account, though it may raise inflation as imports cost more).