Solutions

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

Each answer shows the steps, then the **result**.

2.1

- the **exchange rate** is the **price of one currency in terms of another** (K)

2.2

- a **depreciation** makes **exports cheaper** (to foreigners) and **imports dearer** (K)

2.3

- a floating exchange rate is set by the **demand for and supply of** the currency (K)

3.1 B

- an **appreciation** makes **exports dearer** and **imports cheaper** (K)
- A is a depreciation; C and D treat both sides the same

3.2

- draw a currency demand and supply diagram: demand for the currency **shifts right** (K)
- foreigners buying more exports must **buy the currency** (An)
- with supply unchanged, the exchange rate **rises** (an appreciation) (An)

3.3

- a depreciation **lowers** the currency's value (K)
- exports become cheaper for foreign buyers → **exports rise**; imports become dearer → **imports fall** (An)
- this can improve the **current account**, though it may raise inflation as imports cost more (An)