6.3 Foreign exchange rates

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

KEY WORDS exchange rate 汇率 • currency 货币 • floating exchange rate 浮动汇率 • depreciation 贬值 • appreciation 升值

Objective

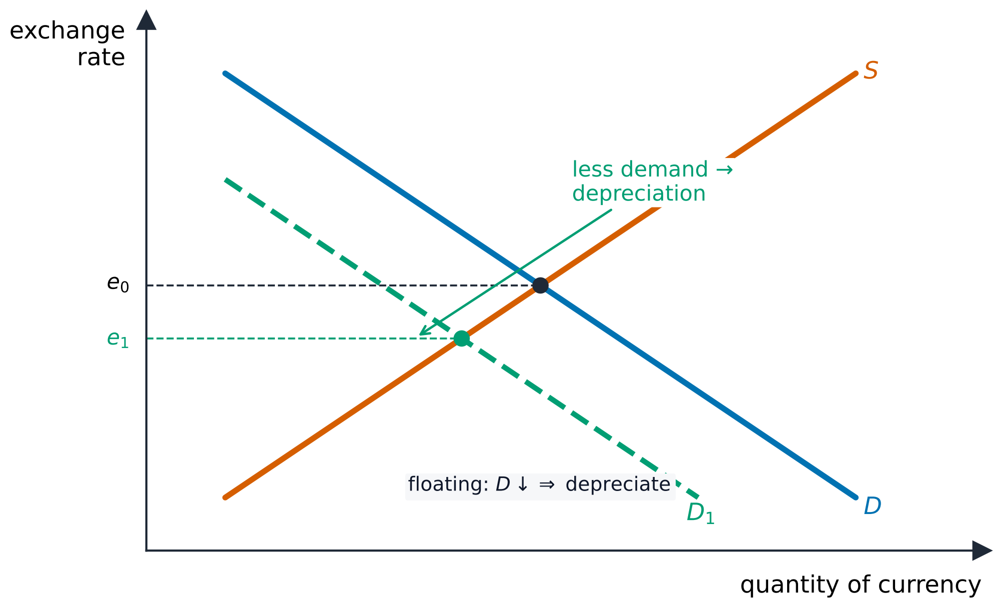
Build the skills to answer exam questions on **foreign exchange rates 外汇汇率** — how a **floating exchange rate 浮动汇率** is set, and **appreciation and depreciation 升值与贬值** and their effects on trade.

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

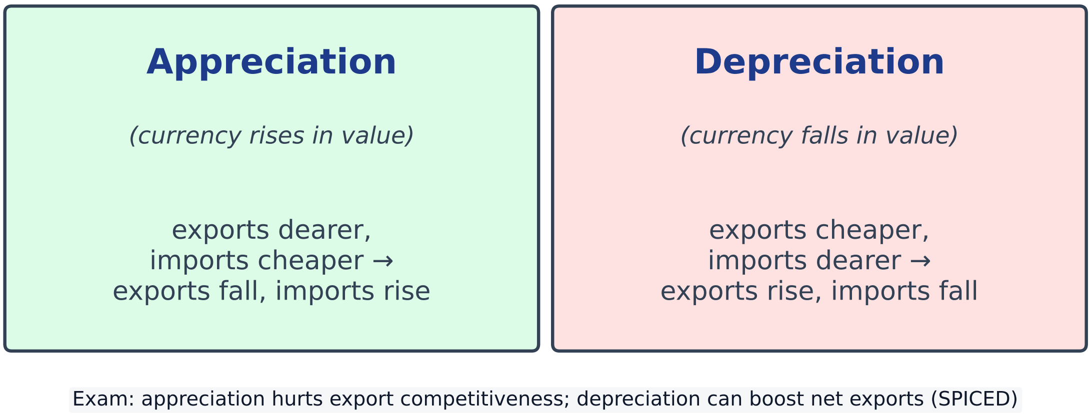
The exchange rate



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 | B
C | D

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]