Exchange Rates

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- When international trade occurs, one nation exchanges money, or currency, in return for another nation.
- Every nation is ultimately paid in its own currency.

Exchange Rates

- The relative values of different currencies are expressed as an **exchange rate**, the price of one nation’s currency in terms of another nation’s currency.

- For example, the exchange rates for the U.S. dollar and the Japanese yen tell you how many yen the Japanese must exchange for one dollar or what percentage of a dollar Americans must pay for one yen.

- Exchange rates are always changing.
- The exchange rates between two currencies depends on how much demand there is for each country’s exports at any given time.
- When there is more demand for a nation’s products, people need more of that nation's currency to buy the products.

The table below shows the approximate exchange rates of the American dollar for the currency of several other nations on Oct. 2014.

	Value of $1 U.S. (in foreign currency)	Value of foreign currency (in U.S. dollars)
Canadian dollar	0.89	1.00
Euro	1.27	1.00
Japanese yen	0.0093	1.00
Mexican peso	0.07369	1.00

Exchange rates change over time.
Table 2 shows how the exchange rate between the Canadian dollar and the American dollar changed from 1997 to 2007.

	Value of $1 U.S. in Canadian dollars	Value of $1 Canadian dollar in U.S. dollars
1997	**1.39**	**0.73**
2007	**0.97**	**1.03**

Some Americans benefit from a strong dollar, while others benefit from a weak dollar.

- When the dollar is strong, or appreciates:
  - Imports increase and are cheaper for consumers to buy.
  - Travel abroad is cheaper for American tourists.
  - U.S. exports decline.
  - The U.S. trade deficit increases.

Some Americans benefit from a strong dollar, while others benefit from a weak dollar.

- When the dollar is weak, or depreciates:
  - U.S. exports increase and the prices of exports go up.
  - Travel abroad is more expensive for American tourists.
  - The U.S. trade balance improves
  - Foreign investment is U.S. businesses increases.

- Exchange rates are very important to people involved in international trade, tourism, and investment.

- That is why changes in the rates are posted daily and experts are hired to predict possible changes in the future.

Question #1

- **What might cause the value of the U.S. dollar to appreciate in relationship to the euro?**
- A. increased demand for European products in the U.S.
- B. increased demand for U.S. products in Europe.
- C. increases in the U.S. money supply.
- D. high rates of inflation in the U.S.

Answer:

- B. Increased demand for U.S. products in Europe.

Question #2

- **One advantage of a weak dollar is that**
- A. travel abroad is cheaper for Americans.
- B. American income tax rates go down.
- C. Imports are cheaper for Americans to buy.
- D. American exports increase.

Answer Question #2

- D. American exports increase.

Question 3

- What must first take place in order for one country to trade with another?

Answer Question 3

- Exchange currency for the currency accepted by the trading country.

Question #4

Value of $1 U.S. in pesos	Value of 1 peso in U.S. dollars
10.34	**0.09**

Stacy traveled to Mexico and took $100 in U.S. currency. When she exchanged the $100 for pesos, she received about

A. 10.3 pesos

B. 103 pesos

C. 1,034 pesos

D. 900 pesos

Answer Question #4

- . 1,034 pesos
- ($100 X 10.34 = 1,034 pesos)