Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period: \_\_\_\_\_\_\_\_\_\_\_

**Exchange Rates & Exchange: How Money Affects Trade**

Directions: Use the following website to answer the questions: <http://www.econedlink.org/lesson/342/>

1. What must a person do regarding currency, if they demand products from another country?

**They must enter into that countries foreign exchange market & buy that nations currency.**

2. Why does the “price” of money change?

**Constant shifts in the supply & demand for foreign currency will result in changing prices of currency.**

3. Define foreign exchange rate

**It tells you how many American dollars it will cost you to purchase a unit of foreign currency.**

4. What does a “floating” exchange rate mean?

**When the exchange rate changes daily with the international supply and demand for currency.**

5. Give four examples of factors that would cause a nation’s currency to appreciate

A. **If the other nation’s products sell at a lower price than domestic products**

B. **If domestic incomes rise or domestic inflation rates are higher than those in other nations**

C. **if another nation’s interest rate (return on investment) is higher than the domestic interest rate**

D. **When consumers import more products from a country or invest in that country’s securities**

6. Explain the negative effect of a strong dollar.

**It hurts American exporters. Buyers from other countries see our currency as being very expensive; they must give up more of their currency to buy dollars. As a result, the prices of our products appear more expensive to them. Therefore, the quantity demanded of our exports falls**.

7. How can changing exchange rates be self-correcting over time?

**The cycle of international trade will cause a once strong currency to become weak which effect the balance of trade. This cycle keeps reverse itself.**