**FOREIGN EXCHANGE RATES PRACTICE**

Because different countries use different currencies, international trade requires a system for exchanging money among nations. If an American wants to buy goods made in Japan, somewhere along the line dollars must be exchanged for Japanese yen. The price of one currency in terms of another is called the exchange rate. If this exchange rate is prevented from changing it is called ***fixed*** (or pegged) and if it changes with supply and demand it is called ***flexible*** (or floating). Exchange rate tables, which can be found in newspapers, at banks, and on the internet, show the price of one currency in terms of another. For example, in Month 1 of the following exchange rate tables, one US dollar is worth 90.62 Japanese yen and conversely, a single Japanese yen is worth $.011 (1.1 US cents).

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| --- | --- | --- | --- | --- | --- |
| **Exchange Rate Table for Month 1** | | | | | |
|  | US Dollar | British Pound | Chinese Yuan | Japanese Yen | Euro |
| **US Dollar** | --- | 1.480 | .1465 | .0110 | 1.237 |
| **British Pound** | .6754 | --- | .0989 | .0075 | .8082 |
| **Chinese Yuan** | 6.826 | 10.1058 | --- | .0753 | 8.445 |
| **Japanese Yen** | 90.624 | 134.163 | 13.276 | --- | 112.12 |
| **Euro** | .8082 | 1.1966 | .1184 | .0089 | --- |

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| --- | --- | --- | --- | --- | --- |
| **Exchange Rate Table for Month 2** | | | | | |
|  | US Dollar | British Pound | Chinese Yuan | Japanese Yen | Euro |
| **US Dollar** | --- | 1.604 | .1555 | .0104 | 1.069 |
| **British Pound** | .6234 | --- | .0907 | .0064 | .7251 |
| **Chinese Yuan** | 6.428 | 11.024 | --- | .0652 | 6.983 |
| **Japanese Yen** | 95.724 | 155.765 | 15.329 | --- | 108.695 |
| **Euro** | .9357 | 1.379 | .1432 | .0092 | --- |

**Part A. Use the two exchange rate tables to answer questions 1-3.**

1. Is the exchange rate of dollars to euros fixed or flexible? Explain your answer.
2. A currency ***appreciates*** (or gets stronger) if it buys more of a foreign currency than it did before. Did the dollar appreciate against the Japanese yen from month 1 to month 2? Explain.
3. A currency ***depreciates*** (or gets weaker) if it buys less of a foreign currency than it did before. The US dollar depreciated against what currency(s) from month 1 to month 2?

**Part B. Now use the exchange rate tables to answer questions 4-8.**

1. An American family goes on vacation to see the beautiful city of London in Great Britain. They have budgeted $5000 to spend while they are there. How many British pounds will $5000 buy in month 1? Month 2? When should the family go on vacation?
2. An American family is buying Japanese electronics in the local retail store. Which month will those products be cheaper for the family? Explain.
3. A Chinese company contracts a French architect to design a new building in Shanghai for 100,000 Euro. How much (in yuan) would it cost the Chinese firm in month 1? Month 2? So in which month would the Chinese company prefer to pay off the contract?
4. The Chinese government wishes to invest in US Treasuries with their yuan. In which month should the Chinese government buy US Treasuries? Explain your answer.
5. An American aircraft manufacturer is trying to sell as many commercial aircraft in Japan as they can for $150 million per plane. What is the difference in the yen price between month 1 and month 2? During which month is the American firm more likely to sell more planes? Why?

**Part C. Answer the remaining two questions.**

1. Name two groups of people who would benefit from the US dollar becoming stronger (appreciating).
2. Name two groups of people who would benefit from the US dollar becoming weaker (depreciating).