Effects on Exchange Rates

How do we know how much any currency is worth? The simple answer is that money is worth whatever people are willing to exchange for it. This means it is simply a case of supply and demand. If there is little demand for a country’s currency and it is in large supply, the money will be worth less than if there is a high demand for it and a small supply.

As an example, if the United States buys more imports, there is a greater supply of U.S. dollars outside the country. As the supply increases, each dollar is worth less. Thus we say the money is **DEPRECIATED**. If, on the other hand, there are relatively few U.S. dollars outside the country and/or many foreigners want U.S. currency, each dollar will be worth more or it is **APPRECIATED**.

For the scenarios below, determine if US currency is being Depreciated (losing value) or Appreciated (gaining value) and provide a rationale for your decision.

The United States is experiencing record low inflation. Depreciated / Appreciated

Rationale:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

U.S. interest rates begin to rise. Depreciated / Appreciated

Rationale:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

U.S. debt continues to increase. Depreciated / Appreciated

Rationale:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chinese automobile manufacturer Byd becomes a popular model in the United States

 Depreciated / Appreciated

Rationale:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

American made Boeing Airplanes become the #1 choice for China Airlines

 Depreciated / Appreciated

Rationale:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_