

Foreign Exchange Rates

Within an economy, prices are stated in the domestic currency (the U.S. in our case). Sellers who export goods want to be paid in their own currency; therefore, foreign exchange markets allow international buyers and sellers to exchange currencies.

Currency Exchange Calculator- www.xe.com

Table 1:

Country	Currency	Exchange Rate
Thailand	1 Baht	32.91
Great Britain	1 Euro	0.73
Russia	1 Ruble	33.94
Mexico	1 Peso	13.30
India	1 Rupee	61.79
China	1 Yuan	6.05
United Kingdom	1 Pound	0.60

Formula

$$\frac{\text{Amount in Foreign Currency}}{\text{Current Exchange Rate}} = \text{Amount in U.S. Dollars}$$

Example: A can of soda costs 2.1 euros in Germany...

$$\frac{2.1}{.73} = \$ 2.88 \text{ U.S. dollars}$$

Use the currency exchange rates in the table above to find the U.S. dollar amount for each of the following questions.

- | | <u>Formula</u> | <u>Cost in U.S. Dollars</u> |
|--|----------------|-----------------------------|
| 1. A hamburger in Thailand costs 100 Baht. | | |
| 2. A leather jacket in Great Britain 200 Euros. | | |
| 3. A pair of designer jeans in Mexico costs 120 Pesos. | | |
| 4. A hotel room in India costs 18,000 Rupee. | | |
| 5. A bag of Doritos in China costs 21 Yuan. | | |
| 6. A movie ticket in Russia costs 1,500 Rubles. | | |

What scenario above is the best “deal” relative to U.S. prices/purchasing power?

****Money is worth whatever people are willing to exchange for it. It is a simple matter of supply and demand.***

Table 2:

	May 09	Sept 09	Jan 10'
Thailand Baht	32.08	31.14	29.78
UK Pound	0.67	0.59	0.50
India Rupee	31.5	37.3	39.15

Using the data above, circle the correct term for each of the following questions:

1. The Thai Baht (depreciated/appreciated) from May 09-Jan 10'
2. The UK Pound (depreciated/appreciated) from May 09-Jan 10'
3. The India Rupee (depreciated/appreciated) from May 09- Jan 10'



*** When the U.S. Dollar appreciates it becomes “**stronger,**” meaning it takes more of the foreign currency to get one U.S. dollar.



*** When the U.S. dollar depreciates, it becomes “**weaker,**” meaning it takes less foreign currency to get one dollar.

Circle the correct term in each sentence:

1. As the U.S. dollar becomes stronger, American exports will (increase/decrease).
2. As the U.S. dollar becomes weaker, American exports will (increase/decrease).
3. In an effort to increase its exports, what might a country try to do to the value of its currency?
4. Why is it important for a country to know international exchange rates when considering trading?