6.5 Changes in the Foreign Exchange Market and Net Exports

Name: ______________ Class: __________ Date: ____________ **Total: 9 marks**

KEY WORDS net exports 净出口 • currency appreciation 升值 • currency depreciation 贬值

Objective

Build the skills to answer exam questions on **changes in the foreign exchange market and net exports**.

You must be able to:

- explain how a **currency appreciation 升值** lowers **net exports 净出口**
- explain how a **currency depreciation 贬值** raises net exports
- connect exchange-rate changes to shifts in **aggregate demand**

1 Worked examples

Study these first. Each one shows the method for a question type used later.

> **■ Appreciation lowers net exports**
>
> A stronger currency makes exports **dearer** abroad and imports **cheaper** at home, so **net exports fall**.
>
> **■ Depreciation raises net exports**
>
> A weaker currency makes exports **cheaper** and imports **dearer**, so **net exports rise**.
>
> **■ Link to AD**
>
> Net exports are a component of AD, so an appreciation shifts **AD left** and a depreciation shifts **AD right**.

2 Practice

2.1 State the effect of a currency appreciation on net exports. [1]

2.2 State the effect of a currency depreciation on net exports. [1]

2.3 Explain how a currency appreciation affects aggregate demand. [2]

3 Exam-style questions

3.1 A currency appreciation makes a country's exports [1]

- **A** cheaper abroad
- **B** dearer abroad
- **C** unchanged in price
- **D** free

3.2 A depreciation of the currency [1]

- **A** raises net exports
- **B** lowers net exports
- **C** has no effect on net exports
- **D** lowers the price of imports

3.3 A country's currency depreciates.

(a) State the effect on the price of its exports abroad. [1]

(b) State the effect on net exports. [1]

(c) State the effect on aggregate demand. [1]

Solutions

2.1 they fall.

2.2 they rise.

2.3 an appreciation lowers net exports, which shifts aggregate demand to the left.

3.1 **B**.

3.2 **A**.

3.3 (a) they become cheaper. (b) net exports rise. (c) AD shifts right (increases).