6 Balance of payments and exchange rates – Part 1 — Answers

Answers

Work through these after you have tried the questions yourself.

2.1 a country's trade in goods and services with the rest of the world (exports minus imports, plus income and transfers).
2.2 appreciating means gaining value (buying more foreign currency); depreciating means losing value.
2.3 €1 $= \frac{1}{0.80} = \$1.25$.
2.4 it has appreciated – each dollar now buys more euros (0.90 instead of 0.80).
2.5 any of: higher domestic interest rates, higher demand for its exports, expectations that it will rise.