6 Balance of payments and exchange rates – Part 1

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
balance of payments	国际收支			
current account	经常账户			
exchange rate	汇率			
appreciates	升值			
depreciates	贬值			

Recall

Countries trade and exchange currencies:

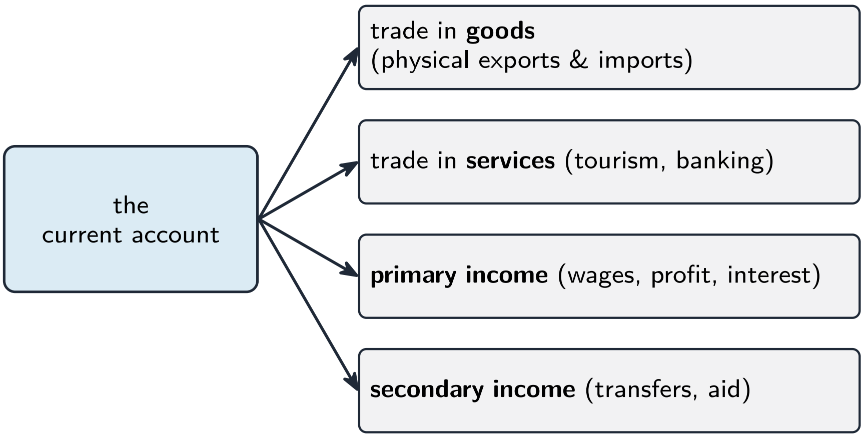
- A country buys imports and sells exports.
- To buy foreign goods you need foreign money.
- Exchange rates change – sometimes a currency is “strong”, sometimes “weak”.

This sheet lines up trade balances and exchange rates. Each idea has a worked example.

New ideas

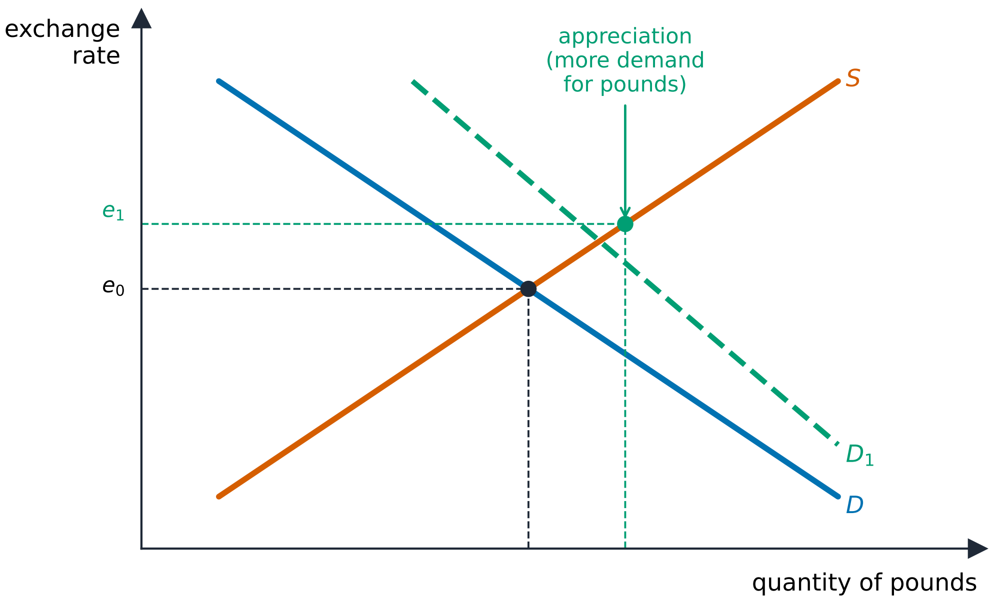
■ 1 The balance of payments

The **balance of payments** 国际收支 records a country’s transactions with the rest of the world. Its **current account** 经常账户 tracks trade in goods and services (exports minus imports).



2 Exchange rates

An **exchange rate** 汇率 is the price of one currency in terms of another. A currency **appreciates** 升值 when it gains value and **depreciates** 贬值 when it loses value.



3 Two sides of one change

Every exchange-rate change has two sides.

Worked example. If \$1 = €0.90, then €1 = $\frac{1}{0.90}$ ≈ \$1.11. If the dollar then rises to \$1 = €1.00, the dollar has **appreciated** and the euro has **depreciated** – the same event seen from each side.

■ **4 What moves exchange rates**

A currency **appreciates** when demand for it rises – for example, higher domestic interest rates attract foreign investment, raising demand for the currency.

Watch out: an appreciation of one currency is always a depreciation of the other. Always track **which** currency you are describing.

Practice

Try these in order. The methods are all above.

2.1 State what the current account records. [2]

2.2 State the difference between a currency appreciating and depreciating. [2]

2.3 If \$1 = €0.80, how many dollars is €1 worth? [2]

2.4 The dollar changes from \$1 = €0.80 to \$1 = €0.90. State whether the dollar has appreciated or depreciated. [2]

2.5 State one reason a currency might appreciate. [1]