6 Exchange rates and trade – Part 2 — Answers

Answers

Work through these after you have tried the questions yourself.

2.1 net exports rise – a depreciation makes exports cheaper for foreigners and imports dearer, so exports rise and imports fall.
2.2 net exports fall – exports become dearer for foreigners and imports become cheaper.
2.3 after the dollar depreciates, each dollar buys fewer euros, so a euro-priced good costs more dollars.
2.4 to the right (higher net exports raise aggregate demand).
2.5 a higher interest rate attracts foreign investors seeking better returns, so demand for the currency rises and it appreciates.