AP MACROECONOMICS • HOLIDAY HOMEWORK 假期作业

6 Exchange rates and trade – Part 2

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)
net exports	净出口	____________ ____________ ____________

Recall

In Part A you met exchange rates. Now see how they affect trade:

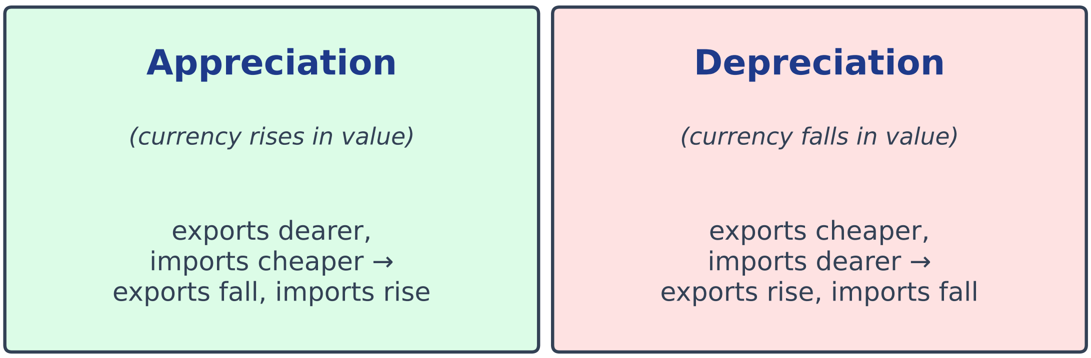
- A weak currency makes a country's exports cheaper for foreigners.
- A strong currency makes imports cheaper to buy.

Each idea has a worked example before the Practice.

New ideas

1 Exchange rates and net exports

A change in the exchange rate changes **net exports** 净出口 (exports minus imports):



- a **depreciation** makes exports cheaper for foreigners and imports dearer, so net exports **rise**,
- an **appreciation** makes exports dearer and imports cheaper, so net exports **fall**.

2 A worked example

Worked example. A US car costs \$30,000. To a European buyer at \$1 = €0.90, that is €27,000. If the dollar **depreciates** to \$1 = €0.80, the same car costs only €24,000 – cheaper for foreigners, so US exports rise.

3 The link to aggregate demand

Because net exports are part of aggregate demand, a currency change feeds through to output: a depreciation (more net exports) shifts AD **right**.

4 Interest rates and currencies

A higher domestic interest rate attracts foreign money, raising demand for the currency and causing it to **appreciate** – which then reduces net exports.

Watch out: a **weaker** (depreciated) currency is actually **good** for a country's exporters – it makes their goods cheaper abroad. A "strong" currency is not always better for the whole economy.

Practice

Try these in order. The methods are all above.

2.1 State what happens to net exports when a currency depreciates, and why. [2]

2.2 State what happens to net exports when a currency appreciates. [2]

2.3 A €-priced good costs a US buyer more after the dollar depreciates. Explain why. [2]

2.4 State which way aggregate demand shifts when a currency depreciates. [1]

2.5 Explain why a higher domestic interest rate tends to strengthen (appreciate) the currency. [2]