

7.1 IGCSE trade and exchange rates

Name: _____ Class: _____ Date: _____ **Total: 6 marks**

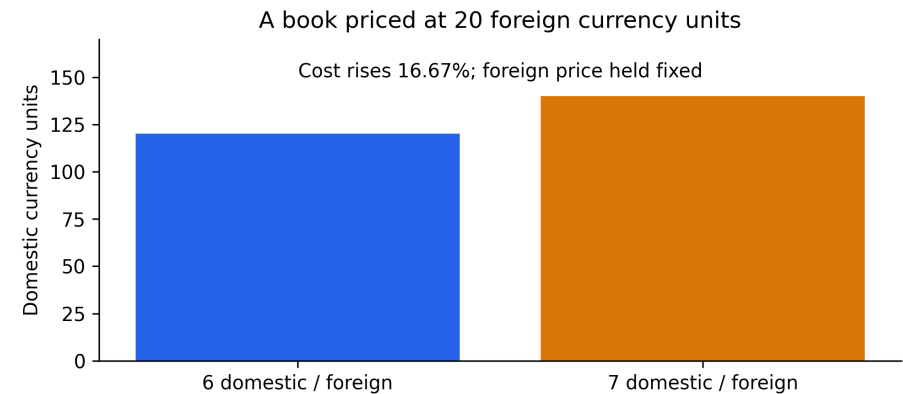
KEY WORDS exchange rate • depreciation • tariff • retaliation

Objective

Apply the supported native methods to original data and justify a qualified transfer conclusion.

1 Key knowledge and worked examples

An exchange rate must state currency direction. Trade changes affect consumers, exporters, input users, competing firms and employment differently. Globalization increases integration but does not distribute benefits equally. Protection changes incentives and may provoke retaliation; its justification needs a specified problem and alternatives.



An imported book costs 20 foreign-currency units. The exchange rate changes from 6 to 7 domestic units per foreign unit. Calculate the domestic cost before and after.

Domestic cost=foreign price×domestic currency per foreign unit. Initially cost=20×6=120 domestic units; later cost=20×7=140 domestic units. The domestic currency depreciated in this quotation. Percentage domestic-price change=(140−120)/120×100%=16.67%, assuming the foreign price and pass-through are unchanged. Importers pay more; exporters may become cheaper to foreign buyers, but costs, contracts and responsiveness qualify the effect. This is not a current real exchange-rate claim.

2 Practice

2.1 For the worked case, state the method, show its application and give a limitation.[3]

3 Exam-style questions

3.1 A tariff protects one producer but raises imported component costs for other firms. Give a balanced judgement and a review condition. [3]