**INTRODUCTION TO EXCHANGE RATES**

Using internet sources and your textbook to help you answer the following questions:

**BASIC QUESTIONS**

Q1: What is an exchange rate?

|  |
| --- |
|  |

Q2: What does it mean when we say the currency is ‘strong’ or ‘weak’? What does it mean when a currency is appreciating or depreciating?

|  |  |
| --- | --- |
| Strong? | Appreciating? |
| Weak? | Depreciating? (or devaluing?) |

Q3: What has happened to the pound against the dollar over the past 20 years? When was the pound at it’s strongest and weakest?

|  |
| --- |
|  |

Q4: Why can having a ‘strong currency’ be damaging for an economy? Can you find a real world example?

|  |
| --- |
|  |

Q5: Why can having a ‘weak currency’ be damaging for an economy? Can you find a real world example?

|  |
| --- |
|  |

Q6: Find a newspaper article about recent exchange rate movements of the pound. Summarise the article, state the source and date of the article and explain the effect this is having on the macroeconomic indicators (balance of payments, inflation, economic growth and unemployment) of the UK economy.

|  |
| --- |
|  |

**HARDER QUESTIONS TO STRETCH YOU – Covering some year 2 work….**

1. What can determine the appreciation or depreciation of a currency?
2. What is the purchasing power parity exchange rate and how does it differ from the official exchange rate?
3. What is the ‘Big Mac’ index?

|  |
| --- |
|  |