**RWS#9: Exchange Rate Systems**

**Due for: First lesson – due for Tuesday 14th May 2019**

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| **GENERAL INSTRUCTIONS:***Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you* ***up to 2 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).**Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!**You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.**This revision worksheet should be taking you 2.5 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.**REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE**ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES****Compulsory*** Course Textbook for the Second Year (You can download this as an ebook or read it online): 340 to 351
	+ LINK 1: Click on this link - <https://www.dawsonera.com/abstract/9781471829864>
	+ LINK 2: If the link above does not work, goto the ILC page on GOL OR click on <https://online.godalming.ac.uk/course/view.php?id=37> . Click on DAWSONERA box and accept terms and conditions. Write “AQA A-level Economics Book 2 Powell” into the search engine.
* Class and PREP homework notes (in your bag!) and department worksheets (available on GOL). Remember to include the PREP work from Easter as well as well as the department worksheets (e.g. ERM Worksheet for example)
* See the powerpoint slides on GOL for access to my notes and the videos of these two diagrams.

**EXTENSION (IF YOU HAVE TIME, TRY TO READ OR WATCH THESE)**Economics Help WebsiteTutor2U Website**ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** **ods@godalming.ac.uk** |

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| **SPECIFIC INSTRUCTIONS:****TITLE: RWS9 – Exchange Rate Systems****Effects of exchange rates on the Macro economy RECAP (1/4 side of A4)*** Explain how a weakening pound might affect the macroeconomy of the UK (looking at each of the four macro indicators)

**Floating Exchange Rate Systems (3/4 side of A4) – Exchange Rate Determination in the Short Run*** Provide a brief overview of the FOREX markets
* Explain, using a supply and demand diagram, how currencies can be affected by changes in exports (demand) and changes in imports (supply) within a country
* Explain how the following factors might also influence the exchange rate for a country. No need for a diagram but display your answers perhaps in a table with explanation:
	+ Interest rates from the countries central bank
	+ Domestic Inflation
	+ Inflation in another country
	+ Confidence in the Government of the country (affected by things like levels of debt, strength of Government, the way they dealt with external shocks to the economy etc.

**Purchasing Power Parity Theory (1/4 side of A4) – Exchange Rate Determination in the Long Run*** What is the PPP theory? Refer to the long run and the difference between the nominal and real exchange rates. (think about long term price levels if all other things remain equal) using an example (Apple Mac one?)
* How is the PPP exchange rate calculated?
* What is the ‘Big Mac’ Index? Provide some details.
* Why are some economists skeptical of PPP theory?

**Fixed Exchange Rate Systems (1/2 side of A4) – Exchange Rate Determination in the Short Run*** Provide a brief overview of the ‘Gold Standard’, ‘Bretton Woods’ and the ‘Exchange Rate Mechanism’ (ERM) from the point of view of the UK Economy – describe how these fixed or semi-fixed systems (managed) worked and why they were worked and why they did not in the end.
* Explain, using a diagram (demand and supply for pounds), how fixed exchange rates work

**Evaluating floating and fixed exchange rates (1/3 side of A4)*** Draw a table, explaining the key arguments for and against each system.
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