

## **Understanding the Effects Of Currency Exchange Rates**

**OVERVIEW:** The value of money is determined when people are willing to accept it in exchange for goods and services. Previous to using money, bartering was used as the primary means of trade. As the exchanges became more and more complicated, a standard system had to be devised. The result was money, and eventually each nation developed its own form of currency. The daily exchanges of currency between the U.S. and other nations have a major effect on international trade with Nebraska.

**ECONOMIC CONCEPTS:** The students will learn about:

1. exchange rates
2. international trade

**OBJECTIVES:** The students will be able to:

1. match selected foreign currencies with their country of origin.
2. discuss the role of currency rates in international trade.
3. compute foreign currency exchange transactions using a foreign currency conversion table.
4. describe the effects of changes in the value of a nation's currency on its imports and exports.
5. understand the implications of a strong and weak dollar

**MATERIALS:**

1. Shopping for Currency Student Worksheet
2. Which is Better - A Strong or Weak Dollar Student Handout
3. Converting U.S. Dollars Into Foreign Currency Student Worksheet
4. Currency Conversion Table Student Handout
5. Foreign Currency Student Handout

## PROCEDURE:

1. Introduce the lesson by showing and passing around either pictures or actual currencies from other countries. Ask students if they have ever traveled to another country. If so, draw on their experiences for this lesson. Ask students how they think the value of one currency is determined against another. (Accept a variety of answers but getting to the idea that buyers and sellers of the currency -- supply and demand, determine the exchange rates.) Ask students what implications they think these different forms of exchange might have on the overseas travel and international trade arrangements made by Americans each day. Pictures of foreign currency available on the Foreign Currency Handout or at [www.x-rates.com](http://www.x-rates.com)
2. Handout Shopping for Currency, have students work through it, and discuss the answers. Answers: 1-I, 2-F, 3-K, 4-D, 5-H, 6-N, 7-M, 8-B, 9-E, 10-J, 11-A, 12-o, 13-G, 14-L, 15-C.
3. Distribute the Student Handout, Which is Better - A Strong or Weak Dollar?, and have students read the pros and cons of a strong and weak U.S. dollar. Discuss the following concepts:
  - A. Dollar Value Up = American Purchasing Power Abroad Up  
Our American dollar is worth more and will buy more foreign goods and services.
  - B. Dollar Value Down = American Purchasing Power Abroad Down  
Since the value of the dollar is down it is worth less and will therefore purchase fewer foreign goods and services.
  - C. Dollar Value Up = Foreign Purchasing in the U.S. Down  
When the dollar is too strong against foreign currencies, foreign businesses and nations will receive fewer dollars when exchanging their currency so they tend to purchase fewer U.S. goods and services.
  - D. D. Dollar Value Down = Foreign Purchasing in the U.S. Up  
If the American dollar is weak, foreign businesses and nations will most likely purchase a greater amount of goods and services.
4. Explain to the students that the value of the dollar goes up and down each day in relation to each specific nation's currency. Daily exchange rates are listed in the paper or at [www.x-rates.com](http://www.x-rates.com)
5. Work through questions #1 and #3 on the Converting U.S. Dollars Into Foreign Currency worksheet, with the students. Allow students time to do #2 and #4 themselves before you review the answers with the class.

Answers:

1. If 1 U.S. dollar equals .64 pounds and you want \$10 in pounds you will receive 6.4 pounds. ( $10 \times .64$ )
2. If 1 U.S. dollar equals 1250 Italian Lira for \$8 you would receive 10,000 Lira. ( $8 \times 1250$ )
3. If 1 pound equals 1.6113 U.S. dollars, 100 pounds is 161.13 dollars. ( $100 \times 1.6113$ )
4. If 1 Canadian dollar equals 0.7651 U.S. dollars, then 10

Canadian dollars equals 7.651 U.S. dollars. ( $0.7651 \times 10$ ).

6. Give students a chance to review and discuss the Currency Conversion Table. Students should check local newspapers for today's exchange rates or online at [www.x-rates.com](http://www.x-rates.com)

7. Summarize the information learned in this lesson as follows:

Ask students how exchange rates for currencies are determined (supply and demand). Ask them what they noticed about the names of currencies in other countries (other countries use dollars, etc.). Ask them to summarize the meaning of a strong versus weak dollar and the implications on companies trying to export or citizens wanting to travel.

## Shopping for Currency

Match the following countries with their currencies:

- |                        |              |
|------------------------|--------------|
| _____ 1. Australia     | a. Won       |
| _____ 2. England       | b. Peso      |
| _____ 3. France        | c. Dinar     |
| _____ 4. Germany       | d. Mark      |
| _____ 5. Holland       | e. Dollar    |
| _____ 6. Italy         | f. Pound     |
| _____ 7. Japan         | g. Krone     |
| _____ 8. Mexico        | h. Guilder   |
| _____ 9. United States | i. Schilling |
| _____ 10. China        | j. Yuan      |
| _____ 11. South Korea  | k. Franc     |
| _____ 12. Russia       | l. Rial      |
| _____ 13. Denmark      | m. Yen       |
| _____ 14. Iran         | n. Lira      |
| _____ 15. Iraq         | o. Ruble     |

## **Which is Better, A Strong Or Weak U.S. Dollar?**

When the United States dollar is strong or increases in value against all other currencies, the following situations will most likely occur.

### **PROS FOR A STRONG U.S. DOLLAR**

1. It is cheaper for U.S. businesses to import from foreign countries because the dollar is strong so foreign goods and services will cost less. The consumer will benefit from this since import prices on goods would go down.
2. It would be cheaper for U.S. citizens to travel abroad since the consumer would be getting more for their U.S. dollars. This usually makes things like food, hotels, and souvenirs cost less.

### **CONS AGAINST A STRONG U.S. DOLLAR**

1. Foreign businesses are less likely to import from the United States because they can trade more goods for their money with a different country that has a currency weaker than the dollar.
2. The U.S. is less likely to export goods when the dollar is strong; thus, foreign demand for goods will decrease. When this happens, it tends to hurt American companies by reducing their international sales.
3. Generally, a foreign country will buy agricultural exports cheaper from a country with a weaker currency exchange rate than the U.S. dollar. The result is that American farmers will develop a surplus of crops, which may lead to lower prices. Getting less for what they produce is a disadvantage to farmers.
4. The U.S. trade deficit increases since we are importing more than we are exporting.

When the United States dollar is weak or decreases in value against foreign currencies the following situations will probably occur.

### **PROS ASSOCIATED WITH A WEAK U.S. DOLLAR**

1. When other currencies are strong, relative to the U.S. dollar, international firms will be able to purchase more products from the U.S. resulting in an increase in exports.
2. When we export more goods abroad, we need more people to produce these products, so our employment rate goes up.
3. When we export more than we import, the trade deficit decreases.
4. When our dollar is weak, other countries can purchase U.S. goods and services at a lower price. For that reason, goods like our agricultural products are in high demand and farmers can expect a rise on most grain and livestock prices.
5. A weak dollar attracts foreign investment into the U.S.; thus, our real estate, businesses, and other investments become good investments for international business owners.

### **CONS ASSOCIATED WITH A WEAK U.S. DOLLAR**

1. When our dollar is weak it costs a lot for U.S. businesses to import goods. These costs are passed on to the consumer. When this happens, prices on goods tend to rise.
2. When we get less of a nation's currency for our dollar, it costs American tourists, business people, and students more money to travel abroad.
3. There will be less foreign investment in U.S. Treasury bills used to finance U.S. government expenditures.

## Converting U.S. Dollars Into Foreign Currency

Pretend you are a businessperson or tourist and answer the following.

US Dollar = \$1.00

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British Pound = 0.60

Euro = .67

Canadian Dollar = .94

1. Using the above information, determine how many British pounds you could get for ten American dollars?
2. Using the above information, how many Euros could you get for eight American dollars?
3. If one pound equals 1.67 US dollars, how much would 100 pounds cost?
4. Using the above information, how many Canadian Dollars could you get for 50 American dollars?

Using the website [www.x-rates.com](http://www.x-rates.com) do the following currency conversions:

1. Convert 25 Japanese Yen into US dollars. \_\_\_\_\_
2. Convert 275 US dollars into Euros. \_\_\_\_\_
3. Convert 1500 Russian Rubles into US dollars. \_\_\_\_\_
4. Convert 5000 US dollars into Swiss Francs. \_\_\_\_\_
5. \_\_\_\_\_