

LESSON 15: EXCHANGE RATES

Focus Question: How are businesses affected by changes in exchange rates?

Objectives

Students will be able to:

- Discuss the importance of exchange rates to firms doing business in other countries.
- Define: exchange rate, appreciation, and depreciation.
- Examine the effects of political, economic, and other events on exchange rates.

Standards

NES: 5, 7, 8, 11

ELA: 1,2,3

Materials

Text, pp. 479-482.

Teaching Strategies

Introduction:

- Distribute Worksheet 15A, “Letter.” As part of the whole-class discussion, have students explain their answers to the following:
 - What do you learn from this letter about foreign exchange rates?
 - Why would an appreciation (increase in value) of the euro (the currency used in Austria) per dollar result in a U.S. firm having to pay more for an order?
 - Based on what we learned here, why should business people concern themselves with exchange rates?
 - What questions does the issue of exchange rates raise for discussion?

Body of lesson:

- Distribute Worksheet 15B, “Exchange Rate Chart.” Have students complete the exercise on the worksheet. Then as part of the whole-class discussion have them explain their answers to the following:
 - What information do we get from this chart about the exchange rates between the euro and the dollar from September 2001 to July 2002?
 - How did the value of the euro-dollar exchange rate change between September 2001 and July 2002?
 - How was business between U.S. and European companies affected by the change in exchange rates between September 2001 and July 2002? To what extent did Europeans benefit? To what extent did U.S. companies benefit?
- Distribute Worksheet 14C. For this exercise, either assign each student the same currency (e.g., the euro) or each a different currency. (If you are assigning each student a different country, make certain that each country selected is represented by an English language version of one its newspapers appearing at www.newsline.org or www.ecola.com.) Review with students the exercise described on worksheet.
- At the end of the four-week period, as part of the whole-class discussion, have students explain their answers to the following:
 - What did you learn from this activity about why exchange rates change?
 - To what extent did the currency you studied increase in relation to the dollar? To what extent did it decrease?
 - To what extent did you accurately predict the change in exchange rates of the country you were assigned?
 - What kinds of events that you read about in the newspapers seemed most likely to cause a change in exchange rates?
 - Did you learn anything about the country whose currency you studied that might help in doing business with people who live there?

Summary/Assessment:

Have students practice converting dollars to other currencies using the interactive tool found at the following web-site: <http://www.xe.com/ucc/>.

Worksheet 15A

Letter

Dear VE Firm:

It was most helpful meeting you and getting to know the members of your firm at last year's trade fair in New York. Thank you for your order. We greatly appreciate your business.

As a result of recent changes in the dollar/euro exchange rate, we find it necessary to inform you that you now owe us an additional \$10,500. At the time you placed your order, at the trade fair, the exchange rate was about 1.11 euros to the dollar. As a result of its appreciation, the exchange rate is now 1.03 euros to the dollar.

It is with regret that we must take this action. However, you are aware that we discussed this possibility and both agreed that under such circumstances we would be entitled to a price adjustment.

Sincerely,

Hans Schmidt, President
Austria International Practice Firm

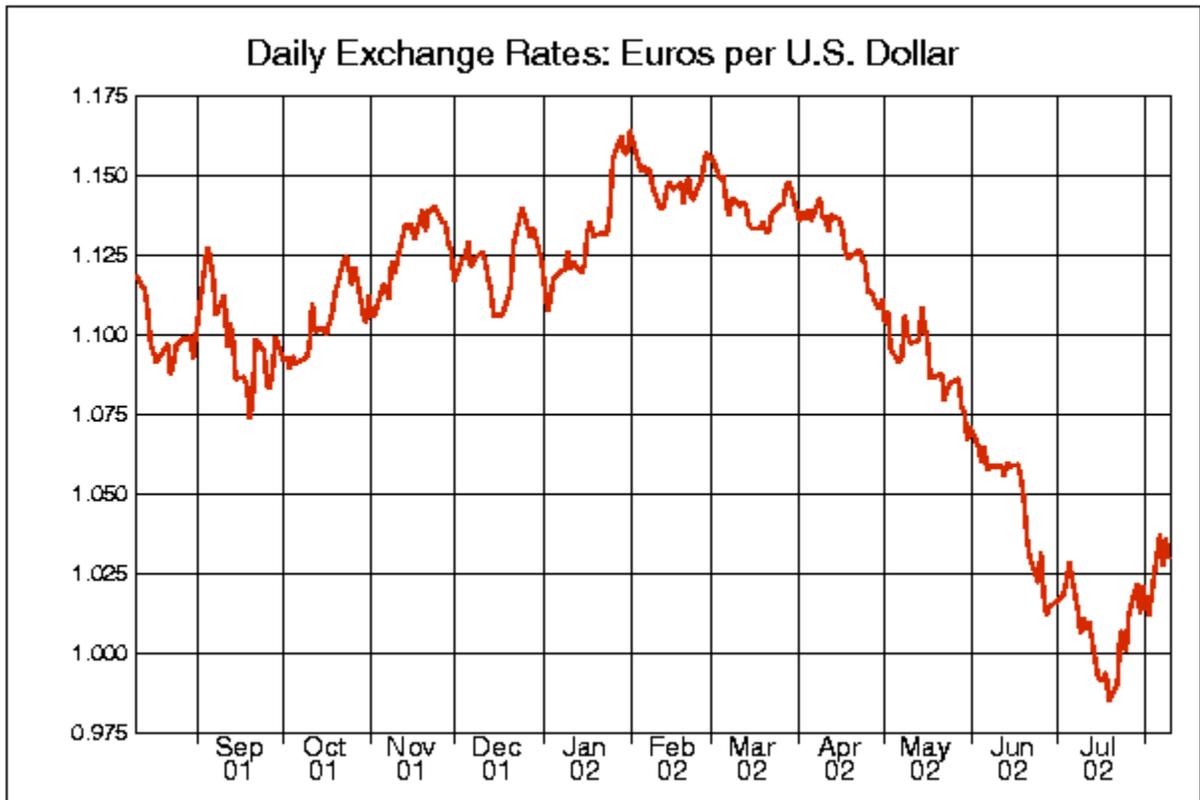
Worksheet 15B

Exchange Rate Chart

If a VE firm from the U.S. wishes to purchase something from a firm in another country, the U.S. firm must change its dollars into the currency of the other country. Exchanging currencies is a lot like buying an item in a store, meaning one pays for the foreign currency (e.g., euros) with currency from one's own country (e.g., dollars).

How are exchange rates set? Like most things you buy, the price of a currency is determined by supply and demand. When the value of one currency increases in relation to another currency, we say that the first currency has appreciated, meaning that the value has gone up. On the other hand, when the value of the U.S. dollar has gone down we say that the value of the dollar has depreciated.

Exercise. Look at the chart below and answer the questions that follow:



1. At the beginning of September 2001, about how many euros could buy \$1? _____
2. At the beginning of February, 2002, about how many euros could buy \$1? _____
3. Based on the chart, it would be correct to say that the dollar (circle one: appreciated / depreciated) in relation to the euro, between September 2001 and February 2002.
4. At the end of July 2002, about how many euros could buy \$1? _____
5. Based on the chart, it would be correct to say that the dollar (circle one: appreciated / depreciated) in relation to the euro between February 2002 and July 2002.

Worksheet 15C

Changing Exchange Rates

Like other prices, exchange rates change daily, often resulting from international events or economic, financial, or political news in a country. Sometimes by reading a country's newspaper, one can predict a currency's appreciation (increase in value) or depreciation (decrease in value).

Exercise. In this exercise, you will try to predict how international and domestic events might change the value of a nation's currency.

IMPACT OF NEWS EVENTS ON RATES

Using the indicated Web sites as sources of information, complete steps 1 through 6 over the NEXT 4 WEEKS.

Write the name of the currency you have been assigned and the country that issues it.

Currency _____ Country _____

[1] Determine the currency's exchange rate.

■ Access the following web site: www.cnnfn.com/markets/currencies/crosscurr.html On the table below under column D, in the row marked **Today**, write in the value of your currency per dollar as it appears on the web site.

[2] Follow international business and financial news that may impact exchange rates.

■ Beginning tomorrow and for the next four weeks, follow international business and financial news at www.ft.com -click Global edition.

[3] Follow a foreign country's major political and news events.

■ Follow major political and other news events in your country by accessing an English language newspaper from your country at either www.ecola.com or www.newslink.org/news.html. Based on what you find at these sites:

[4] Take notes on those events that will impact a currency's value.

■ Keep a record of economic and/or political announcements or events that you think will impact the value of your nation's currency. (Hint: Exchange rates respond quickly to all sorts of events including, business cycles, balance of payment statistics, political developments, stock market news, and central bank policies.)

[5] Draw conclusions about the impact of these events on the exchange rate.

■ At the end of each week:
 a. In column B, express your opinion as to whether you think the value of currency you have been following has *increased*, *decreased*, or *remained the same* versus the dollar. **PLEASE DO NOT CHECK THE EXCHANGE RATE OF THE CURRENCY UNTIL THE LAST DAY OF THE PROJECT;** and
 b. In column C give reasons explaining your opinion.

[6] Generate charts that depict the actual fluctuation of those rates.

■ On the last day of the project, access the following web site pacific.commerce.ubc.ca/xr/plot-classic.html. Create a chart using the currency you have been assigned as the **Target Currency**, and the dollar as **Base Currency**. Enter the appropriate **Start Date** and **End Date**. Record the value of the currency you have been following for weeks 1, 2, 3, and 4 in the appropriate rows under column D.

A. Date on which data is recorded.	B. Currency versus the U.S. dollar has INCREASED, DECREASED, or REMAINED THE SAME.	C. Reasons supporting your opinion in B.	D. Value of Currency Per Dollar. Fill in at end of 4 weeks
Today			
End of week 1			
End of week 2			
End of week 3			
End of week 4			

Federal Reserve Bank of New York, *Teaching About the Global Economy Using the Internet*, 2001, p. 21. Permission pending.