

## INTERNATIONAL ECONOMICS

# Analyzing Exchange Rates and International Purchases

*Detailed practice, calculation, decision-making, and assessment*

|                                                                                                                                                                         |                           |                                      |                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------|-------------------------|
| <b>GRADES</b><br>9-12                                                                                                                                                   | <b>TIME</b><br>2 x 42 min | <b>GROUPING</b><br>I / pairs / whole | <b>PRODUCT</b><br>Brief |
| <b>YOUR CHALLENGE</b> Convert currencies, analyze appreciation effects, include fees and spreads, and explain different effects on travelers, importers, and exporters. |                           |                                      |                         |

## International Choices Link Opportunity Cost, Currency Values, and Supply-Chain Risk

An exchange rate is a price between currencies. When the dollar buys more foreign currency, unchanged foreign prices cost fewer dollars, but U.S. goods priced in dollars can become more expensive to foreign buyers. Fees and offered rates affect the actual transaction.

| Term                                                                                                                                                                                                               | Student-friendly meaning                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Exchange rate                                                                                                                                                                                                      | Price of one currency in terms of another.                                 |
| Appreciation                                                                                                                                                                                                       | Increase in a currency's value relative to another currency.               |
| Depreciation                                                                                                                                                                                                       | Decrease in relative value.                                                |
| Import                                                                                                                                                                                                             | Good or service purchased from abroad.                                     |
| Export                                                                                                                                                                                                             | Good or service sold abroad.                                               |
| Rate spread                                                                                                                                                                                                        | Difference between a reference rate and the rate offered in a transaction. |
| <b>CLASSROOM USE</b> All people, employers, figures, brackets, and documents in this packet are fictional. Never place a real Social Security number, employer ID, bank number, or tax document in classroom work. |                                                                            |

## Part 1 - Convert Currency at a Stated Rate

Fictional starting rate: \$1 = 0.80 foreign currency units (FCU).

| Item        | Foreign price | Dollar equation | Dollar cost |
|-------------|---------------|-----------------|-------------|
| Hotel       | 400 FCU       |                 |             |
| Train pass  | 96 FCU        |                 |             |
| Meal budget | 160 FCU       |                 |             |
| Total       |               |                 |             |

To convert FCU to dollars, divide FCU by FCU per dollar.

## Part 2 - Analyze a Stronger Dollar

The rate changes to \$1 = 1.00 FCU; foreign prices stay unchanged.

| Item  | Old dollar cost | New dollar cost | Dollar change | Percent change |
|-------|-----------------|-----------------|---------------|----------------|
| Hotel |                 |                 |               |                |
| Train |                 |                 |               |                |
| Meals |                 |                 |               |                |
| Total |                 |                 |               |                |

Explain why the foreign items become cheaper in dollars.

Part 3 - Compare Import and Export Effects

A U.S. store imports 10,000 FCU of merchandise. A U.S. designer sells a \$6,000 service abroad.

| Measure                               | At 0.80 FCU/\$ | At 1.00 FCU/\$ | Effect of stronger dollar |
|---------------------------------------|----------------|----------------|---------------------------|
| Importer dollar cost                  |                |                |                           |
| Service price to foreign buyer in FCU |                |                |                           |

Use the same exchange-rate convention. Identify who may benefit and who may face pressure.

## Part 4 - Include Exchange Fees and Rate Spreads

A payment provider charges 3% after conversion. An exchange counter offers only \$1=0.96 FCU when the reference rate is 1.00.

| Option               | Base dollars | Fee/spread effect | Final dollars | Question |
|----------------------|--------------|-------------------|---------------|----------|
| Card at 3% fee       |              |                   |               |          |
| Counter at 0.96 rate |              |                   |               |          |

Use the 656 FCU trip basket. Compare final costs and list non-price considerations.

## Part 5 - Write an Exchange-Rate Decision Brief

Advise the traveler and the two businesses without predicting future rates.

| Decision check             | My evidence |
|----------------------------|-------------|
| Starting conversion        |             |
| New conversion             |             |
| Dollar appreciation effect |             |
| Importer effect            |             |
| Exporter effect            |             |
| Card fee                   |             |
| Counter spread             |             |
| Qualified recommendation   |             |

Write 150-200 words using at least six figures and four verification questions.