

# The Impact of Exchange Rates

Name: \_\_\_\_\_ Date: \_\_\_\_\_

**Directions:** Using correct terminology, write one or two sentences describing what is most likely to happen in each of the following situations. Be prepared to discuss your answers with the class.

- A. Assume the United States dollar is appreciating in value. Explain the effect of this strong dollar on each of the following; also explain why that effect would occur.
1. The price of Pakistani rugs.
  2. The number of rugs imported from Pakistan.
  3. US demand for the Pakistani currency of Rupees.
  4. Profits of importers, such as Pier One Imports.
  5. The price of US machinery, to Pakistani retail firms.
  6. The amount of US machinery exported to Pakistan.
  7. Pakistani demand for US Dollars.
  8. The profits of exporters, such as US machinery producers.
  9. United States balance of trade (trade deficit or trade surplus?)

- B.** Assume that the United States dollar has depreciated in value. Explain the effects of this weak dollar on each of the following and why that effect would occur.
1. US imports of foreign products.
  2. US exports to foreign consumers.
  3. United States balance of trade (trade deficit or trade surplus?)
- C.** Explain whether each of these people would prefer a strong or a weak dollar, and why.
1. A corn farmer in the Midwest.
  2. A line worker at an auto plant.
  3. A gas station owner.
  4. A banana consumer.