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**Foreign Currency and Foreign Exchange**

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Download [**Foreign Currency Activity**](https://www.fte.org/wp-content/uploads/Lesson7ForeignCurActivity.doc): Teacher Guide, Handouts, Visuals (.doc file)

**OVERVIEW**

Many international exchanges of goods and services are facilitated by the exchange of the currencies of the trading countries.  Importers often must obtain the currency of the exporter’s country to purchase the goods to be imported.  Even when they don’t need the actual currency, they must establish a relative value between currencies.  Given the number of countries, currencies, and trading relationships in the world, this is a complicated process.  International monetary markets serve as the mechanism to set the relative values of currencies.  The actual price (or international value) of currencies is set through the interaction of supply and demand in these international currency markets.  Just as in any market many factors can influence either the supply of, or the demand for, a given currency and this will affect the international exchange rate of the currency.

**VIDEO DEMONSTRATION:**

**CONCEPTS:**

* Exchange rates
* Money
* Markets
* Supply
* Demand

**CONTENT STANDARDS:**

**Standard 7:  Markets** – Markets exist when buyers and sellers interact.  This interaction determines market prices and thereby allocates scarce goods and services.

* An exchange rate is the price of one nation’s currency in terms of another nation’s currency.  Like other prices, exchange rates are determined by the forces of supply and demand.  Foreign exchange markets allocate international currencies.

**Standard 11:  Money** – Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.

* Money is anything widely accepted as final payment for goods and services.
* People consume goods and services, not money; money is useful primarily because it can be used to buy goods and services.
* Most countries create their own currency for use as money.

**LESSON DESCRIPTION:**

This activity provides an opportunity for students to participate in a simulated foreign exchange market.  As they experience the need to exchange currencies to purchase foreign goods, they learn about the difference between the domestic and international values of a currency and how factors of supply and demand work to set international exchange rates.

**TIME REQUIRED:**

* One class period.

**MATERIALS:**

*(See download link, above, for handouts, visuals, and teacher guide.)*

* Copies of student reading.
* Bag(s) of M&Ms, or mints, or similar small, inexpensive candies or equally divisible goods like almonds or peanuts. (a 12 oz. bag should easily be enough for three classes.)
* Ten-fifteen Saudi Arabian Riyals (copies from sheet provided).
* Ten-fifteen Classroom Bucks (copies from sheet provided).

**PROCEDURE:**

1. Distribute two or three riyal notes to each student.  Ask them if what you have distributed is money.  (Money is anything acceptable in exchange for goods and services; if they cannot buy anything with the rivals then it is not money.)
2. Indicate that you have three candy mints (or other items) for sale and you would like to know if anyone would like to purchase them.  (Usually some students will begin to offer riyals for the mints.)
3. Indicate to students that the price of the mints is one Classroom Buck.  Show the students a Buck and tell them that they cannot purchase mints with their riyals.  (Let them solve the problem.  Usually, one or more students will quickly try to buy the classroom Buck with their riyals.)
4. Begin to auction off each of three Classroom Bucks for round one.  (You don’t need to worry about getting the absolute highest price for each Buck, but do allow some bidding.  You may want to appoint one student as the banker to exchange currencies and one student to serve as a tally keeper.)
5. When you have sold all three Bucks, record the prices on the board and tell students that they can purchase mints with their Bucks if they wish to.  (Some students may chose to hold onto their Bucks and not buy a mint.  This is O.K.)
6. Distribute another four or five riyals to each student.
7. Announce that you have three more mints for sale at the price of one Buck.
8. Once again auction the Bucks for riyals.  Try to let the bidding go until the prices exceed those of round one.
9. Again, let students with Bucks purchase the mints if they wish.
10. Record the prices paid for Bucks in round two.
11. Distribute four or five more riyals to each student.
12. Conduct a third round and record the prices paid.
13. Debrief activity and distribute student handout for review or future reference.
	* Draw students’ attention to the tally on the board.  Ask “What was a Buck worth in this activity?”
	* What was a riyal worth?
	* How can we best express the relationship of riyals to bucks?
	* Ask students if they know how relative values of international currencies are expressed.
	* ‘Ask students how the value of riyals to bucks was determined in round one.
	* Ask students how actual international exchange values are determined.
	* What happened to the value of the riyal relative to the buck in rounds 2 and 3?
	* Did the buck gain in value?
	* In the classroom activity, why do you think the value of the riyal decreased relative to the buck?
	* What caused the change in demand?
	* What sorts of things might cause the demand for a currency to change?
	* *(For suggested answers and teacher guide, see download linked above.)*

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