



## *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 has a major effect on travel and international trade arrangements made by Nebraska.

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

1. exchange rates
2. international trade

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

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

**NEBRASKA STANDARDS:** 12.3.13

**MATERIALS:**

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

## PROCEDURE:

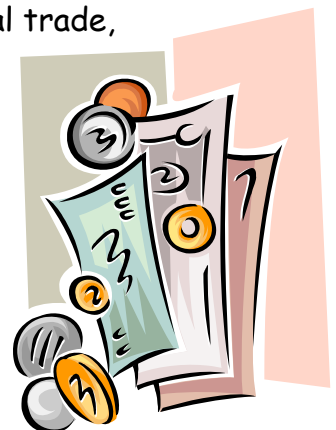
1. Introduce the lesson by distributing foreign currency student handout and, if possible, showing and passing around either pictures or actual currencies from other countries. Ask students if they have ever traveled to another country. If so, draw on their experiences for this lesson. Ask students how 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 Nebraska 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. You may want to group students and have them utilize the Internet to find answers. Answers: 1-e, 2-f, 3-d, 4-d, 5-d, 6-d, 7-j, 8-b, 9-e, 10-h, 11-a, 12-k, 13-g, 14-i, 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. 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.

Explain to the students that the value of the dollar goes up and down each day in relation to each specific nation's currency. If necessary, check a basic economics text for further information. Daily exchange rates are listed in the paper or at [www.x-rates.com](http://www.x-rates.com).

4. Work through questions #1 and #3 on the worksheet, *Converting U.S. Dollars into Foreign Currency*, 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 .70 pounds and you want \$10 in pounds you will receive 7 pounds. ( $10 \times .70$ )
  2. If 1 U.S. dollar equals 1413 South Korean Won, for \$8 you would receive 11,304 Won. ( $8 \times 1413$ )
  3. If 1 pound equals 1.42115 U.S. dollars, 100 pounds is 142.12 dollars. ( $100 \times 1.42115$ )
  4. If 1 Canadian dollar equals 0.802362 U.S. dollars, then 10 Canadian dollars equals 8.02 U.S. dollars. ( $0.802362 \times 10$ )
5. Give students a chance to review and discuss the *Currency Conversion Table*. Students should check local newspapers for today's exchange rates.
  6. 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.
  7. Apply data to current event issues involving international trade, protectionism, etc.



# Foreign Currency



Australian Dollar



Euro



Thai Baht



British Pound



South Korean Won



## shopping for Currency

Match the following countries with their currencies. Answers may be used more than once.

\_\_\_\_\_ 1. Australia

\_\_\_\_\_ 2. England

\_\_\_\_\_ 3. France

\_\_\_\_\_ 4. Germany

\_\_\_\_\_ 5. Netherlands

\_\_\_\_\_ 6. Italy

\_\_\_\_\_ 7. Japan

\_\_\_\_\_ 8. Mexico

\_\_\_\_\_ 9. United States

\_\_\_\_\_ 10. China

\_\_\_\_\_ 11. South Korea

\_\_\_\_\_ 12. Russia

\_\_\_\_\_ 13. Denmark

\_\_\_\_\_ 14. India

\_\_\_\_\_ 15. Iraq

a. Won

b. Peso

c. Dinar

d. Euro

e. Dollar

f. Pound

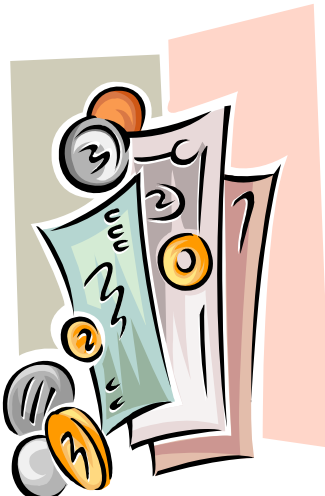
g. Krone

h. Yuan

i. Rupee

j. Yen

k. Ruble





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

When the United States dollar is strong or increases in value against foreign currencies, the following situations will probably 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, like a Toyota, 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, there is usually a rise in the unemployment rate because buying more foreign products means fewer goods are purchased from U.S. suppliers.
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 surpluses of goods so they will have to eventually lower their 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, foreign firms will be able to purchase more products from the U.S. For that reason, exports from the U.S. increase.
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 get a good deal when importing our products. For that reason, goods like our agricultural products are in high demand and farmers can expect a rise for 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 buys for foreign businesses.

### **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, goods like Toyotas and their parts will cost the American consumer more to buy.
2. When we get less of a nation's currency for our dollar it costs American tourists, businesspeople 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.

**U.S. Dollar = \$1.00**

**British Pound = 0.70**

**U.S. Dollar = \$1.00**

**South Korean Won = 1413**

1. Using the above information, determine how many British pounds you could get for ten American dollars?

2. Using the above information, how many won could you get for eight American dollars?

3. If one pound equals 1.42115 U.S. dollars, how much would 100 pounds cost?

4. If one Canadian dollar equals 0.802362 U.S. dollars, then what would 10 Canadian dollars cost?





## Currency Conversion

<u>Foreign Currency</u>	<u>To U.S. Dollar</u>	<u>In U.S. Dollars</u>
Australian Dollar	\$1.53	\$0.65
Brazilian Real	\$2.28	\$0.44
British Pound	\$0.69	\$1.44
Canadian Dollar	\$1.24	\$0.80
Chinese Renminbi	\$6.84	\$0.15
Danish Kroner	\$5.77	\$0.17
*European Monetary Union	\$0.77	\$1.29
Hong Kong Dollar	\$7.75	\$0.13
Indian Rupee	\$49.10	\$0.02
Japanese Yen	\$90.28	\$0.01
Malaysian Ringgit	\$3.61	\$0.28
Mexican New Pesos	\$14.54	\$0.07
New Zealand Dollar	\$1.91	\$0.52
Norwegian Kroner	\$6.76	\$0.15
Singapore Dollar	\$1.51	\$0.66
South African Rand	\$9.93	\$0.10
South Korean Won	\$1396.84	\$0.0007
Sri Lanka Rupee	\$114.154	\$0.009
Swedish Krona	\$8.34	\$0.12
Taiwan Dollar	\$34.05	\$0.03

<u>Foreign Currency</u>	<u>To U.S. Dollar</u>	<u>In U.S. Dollars</u>
Thai Baht	\$35.24	\$0.029
Venezuelan Bolivar	\$2152.17	\$0.0005
Vietnamese Dong	\$16,875.00	\$0.000059

\*Countries utilizing the Euro as of 02/12/09 include: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.



Above exchange rates are based on <http://www.oanda.com> rates effective February 12, 2009. Consult your local newspaper, bank or [www.oanda.com](http://www.oanda.com) to update this information.