CONCEPT: EXCHANGE RATES AND NET EXPORTS

● The ***nominal exchange rate*** is the rate at which one currency trades for another currency

  □ Example: A bank trades 108 Japanese Yen for 1 USD → The bank will give you 108 yen for one dollar

  □ ***Currency Appreciation*** – when your currency can buy __________ of the foreign currency

    > Example: The bank now offers _____ Japanese Yen for 1 USD

When the USD appreciates relative to a foreign currency (i.e. Yen), then: 1. A USD can afford ________ Japanese goods →Imports ___________ 2. A Japanese Yen can afford ________ US goods → Exports ___________ USD appreciates → Net exports __________

  □ ***Currency Depreciation*** – when your currency can buy __________ of the foreign currency

    > Example: The bank now offers _____ Japanese Yen for 1 USD

When the USD depreciates relative to a foreign currency (i.e. Yen), then: 1. A USD can afford ________ Japanese goods →Imports ___________ 2. A Japanese Yen can afford ________ US goods → Exports ___________ USD depreciates → Net exports __________

  □ Note: When one currency appreciates, the other currency depreciates! Always!

    > If the USD can buy *more* Yen, then the Yen can buy *fewer* dollars