CONCEPT: EXCHANGE RATES AND SUPPLY OR DEMAND SHIFTS

● The exchange rate for a currency will depend on the ***supply and demand*** of that currency

□ *Shifts in Quantity of USD demanded*

> Change in foreign country's income

- More foreign income → _______ demand for USD

> Change in US Interest Rates

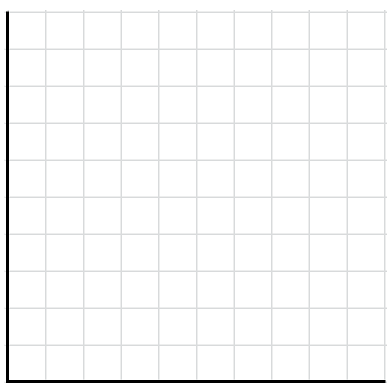
- Higher US Interest Rates → _______ demand for USD

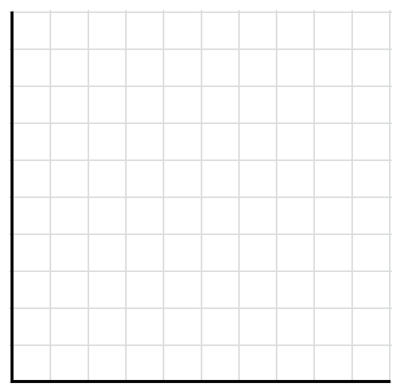
> Change in speculative outlook

- ***Speculation*** – trading currency based on expectations of rate changes

- Expected appreciation of USD → _______ demand for USD

Shifts in Demand





□ *Shifts in Quantity of USD supplied*

> Change in US income

- More US income → _______ demand for imports → ______ supply of USD

> Change in Foreign Interest Rates

- Higher Foreign Interest Rates → _______ supply of USD

> Change in speculative outlook

- Expected depreciation of USD → _______ supply of USD

<u>Shifts in Supply</u>