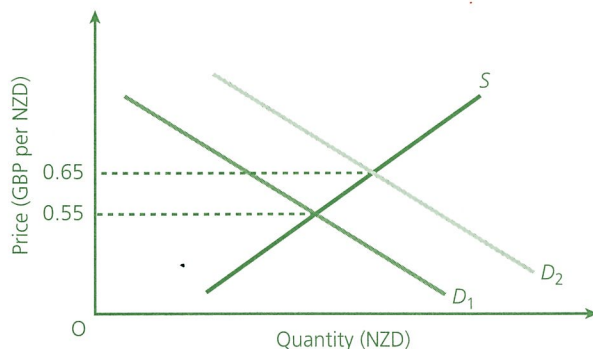


- Which is a drawback of using a fixed exchange rate system?
 - a fall in the demand for exports
 - a rise in the demand for imports
 - the large opportunity cost of using foreign exchange reserves to maintain the fixed rate
 - the uncertainty it creates for international trade and exchange
- In a floating exchange rate system, what is the name given to a rise in the value of an exchange rate?

A appreciation	C devaluation
B depreciation	D revaluation
- In which exchange rate system does the government intervene in the foreign exchange market to maintain its exchange rate at a predetermined level against other currencies?

A devalued	C floating
B fixed	D revalued
- In which exchange rate system is the exchange rate determined by the market forces of demand for and supply of the currency?

A fixed	C managed
B floating	D mixed
- With reference to the diagram below, identify the option that does **not** explain the change in the exchange rate of the New Zealand dollar.



- an increase in interest rates in New Zealand
- greater demand from British households for New Zealand exports
- more British tourists visiting New Zealand
- more firms from New Zealand investing in Britain

6 Define the term *exchange rate*. [2 marks]

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7 Suppose the exchange rate between the US dollar (USD) and the euro (EUR) is $USD1 = EUR0.73$. Calculate the price for customers in Europe of buying textbooks priced at USD70 from the USA. [2 marks]

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8 Suppose the exchange rate between the British pound (GBP) and the Hong Kong dollar (HKD) is $GBP1 = HKD10.5$. Calculate how much it costs a British tourist (in pounds) to buy an iPad in Hong Kong that is priced at HKD6000. [2 marks]

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9 Suppose that the exchange rate between the Australian dollar (AUD) and the British pound (GBP) is $AUD1 = GBP0.57$ while that between the Australian dollar and the Hong Kong dollar (HKD) is $AUD1 = HKD6$. Calculate the exchange rate of the British pound against the Hong Kong dollar. [2 marks]

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10 Although the Chinese government controls the value of its exchange rate, it has been known to allow the yuan (the Chinese currency) to appreciate.

a Explain what is meant by an appreciation in the value of a currency. [2 marks]

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b Analyse the likely effects of China's currency appreciation on its exports and imports. [6 marks]

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