Homework: Market for Currencies

ECO 120: Global Macroeconomics

Changes in Demand

1. Suppose Australia experiences a mining boom with a sharp increase in exports of iron ore and coal to China. Describe and illustrate the impact on the exchange rate between the Australian Dollar (AUD) and the Chinese Yuan (CNY).
2. Crude oil, priced in U.S. dollars, experienced global declines in price over 2024, leading to less revenue for many oil-exporting countries. Curde oil is one of Colombia's largest exports. Describe and illustrate the impact of the decline in global oil prices on the exchange rate between the U.S. Dollar and the Colombian Peso.
3. Suppose the Indian government announces major tax incentives for foreign businesses to investment in production facilities in India, leading to a surge in foreign direct investment into India. Describe and illustrate the impact on the exchange rate between the Indian Rupee (INR) and the U.S. Dollar (USD).
4. Suppose financial investors expect the U.S. Dollar to appreciate against the Euro over the next three months. Describe and illustrate the impact on the exchange rate between the U.S. Dollar (USD) and the Euro (EUR).

Interpreting Exchange Rates

5. On February 9, 2026, the exchange rate between the Euro (EUR) and the United Kingdom Pound Sterling (GBP) was 1 GBP = 1.15 EUR.

   a) Suppose a French person is buying a car in the United Kingdom for 50,000 GPB. What will be the price in Euros?

   b) Suppose a British person is traveling in Spain, and hotel room costs 230 EUR. What is the cost in U.K. Pounds?

   c) One year before, on January 27, 2025, the exchange rate was 1 GBP = 1.19 EUR. From 2025 to 2026, did the U.K. Pound Sterling appreciate or depreciate against the Euro? Did the Euro appreciate or depreciate against the U.K. Pound Sterling?