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Foreign Exchange FRQ's - Modeled after Macro FRQ #2, 2000

1. **Foreign Exchange FRQ**

Assume that the United States and Mexico trade and that exchange rates are flexible. Today the dollar price of one Mexican peso is $.10 and the Mexican peso price of one dollar is 10 pesos.

(a) Draw two correctly labeled graphs that show these currencies at their current equilibrium prices.

(b) Assume that President Fox of Mexico decides to computerize public services and buys computers from Dell and Compaq, American companies. Using Economic Analysis, predict what will happen to the value of each currency in the foreign exchange market as a result of this action.

(i) Draw and label this change on your graphs.

(ii) Explain what will happen to the value of each currency in the foreign exchange markets and why as a result of these changes.

(c) If you decide to travel to Mexico soon, how might this action affect the cost of your trip?

2. **Foreign Exchange FRQ**

Assume that the United States and Poland trade and that exchange rates are flexible. Today the dollar price of one Polish zloty is $.24 and the Polish zloty price of one dollar is 4.15 zloty.

(a) Draw two correctly labeled graphs that show these currencies at their current equilibrium prices.

(b) Assume that this year more Poles decide to send their children to the United States to study in American high schools and universities. Using Economic Analysis, predict what will happen to the value of each currency in the foreign exchange market as a result of this action.

(i) Draw and label this change on your graphs.

(ii) Explain what will happen to the value of each currency in the foreign exchange markets and why as a result of this change.

(c) If you decide to travel to Poland soon, how might this action affect the cost of your trip?

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3. **Foreign Exchange FRQ**

Assume that the United States and Europe trade and that exchange rates are flexible. Today the dollar price of one euro is $.98 and the European euro price of one dollar is 1.02 euros.

(a) Draw two correctly labeled graphs that show these currencies at their current equilibrium prices.

(b) Assume that due to new terms of the GATT agreement, the U.S. lowers the tariff on European wines making them cheaper to American buyers. Using Economic Analysis, predict what will happen to the value of each currency in the foreign exchange market as a result of this action.

(i) Draw and label this change on your graphs.

(ii) Explain what will happen to the value of each currency in the foreign exchange markets and why as a result of these changes.

(c) If you decide to travel to Europe several months after this change, how might this action affect the cost of your trip?

4. **Foreign Exchange FRQ**

Assume that the United States and Japan trade and that exchange rates are flexible. Today the dollar price of one Japanese yen is $.008 and the yen price of one dollar is 122.83 yen.

(a) Draw two correctly labeled graphs that show these currencies at their current equilibrium prices.

(b) Assume that the U.S. Congress votes to lower the quotas on small Japanese cars. Using Economic Analysis, predict what will happen to the value of each currency in the foreign exchange market as a result of this action.

(i) Draw and label this change on your graphs.

(ii) Explain what will happen to the value of each currency in the foreign exchange markets and why as a result of these changes.

(c) If you decide to travel to Japan for your graduation gift, how might this action affect the cost of your trip?

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5. Foreign Exchange FRQ

Assume that the United States and Russia trade and that exchange rates are flexible. Today the dollar price of one Russian ruble is $.03 and the ruble price of one dollar is 31.66 rubles.

(a) Draw two correctly labeled graphs that show these currencies at their current equilibrium prices.

(b) Assume that Russian oil companies decide to sell large quantities of crude oil to American refiners. Using Economic Analysis, predict what will happen to the value of each currency in the foreign exchange market as a result of this action.

(i) Draw and label this change on your graphs.

(ii) Explain what will happen to the value of each currency in the foreign exchange markets and why as a result of these changes.

(c) If you decide to travel to Russia soon, how might this action affect the cost of your trip?

6. Foreign Exchange FRQ

Assume that the United States and Great Britain trade and that exchange rates are flexible. Today the dollar price of one British pound is $1.56 and the British pound price of one dollar is .64 pounds.

(a) Draw two correctly labeled graphs that show these currencies at their current equilibrium prices.

(b) Assume that the British Prime Minister, Tony Blair, decides to buy additional weapons for war such as tanks and planes from the United States. Using Economic Analysis, predict what will happen to the value of each currency in the foreign exchange market as a result of this action.

(i) Draw and label this change on your graphs.

(ii) Explain what will happen to the value of each currency in the foreign exchange markets and why as a result of these changes.

(c) If you decide to travel to the British Isles soon, how might this action affect the cost of your trip?