Foreign Exchange
How to convert currencies!

Visit: oanda.com/currency-converter
Select 2 currencies say, € Euro and $ Dollar.

$$\$1 = €.95$$

This is the ratio (can write it $1/€.95 or €.95/$1). €1 = $1.0526 is also the same ratio (we just made € =1).

Multiply the amount of currency you have times the ratio. But flip the ratio so that the units *cancel out* the currency you have. For example, you have $20…

Convert Euros to dollars
Multiply your money times the correctly flipped rate

Say this is the rate $\frac{\$1}{€.95}$ And you have $20 (how much € is this?)

$\$20 * \frac{\$1}{€.95}$ This won't cancel out the $

$\cancel{\$}20 * \frac{€.95}{\cancel{\$}1}$ So, flip the rate so $ cancels out

$\frac{20 * €.95}{1} = \boxed{€19}$

Or say you have €20…

Convert Euros to dollars
Multiply your money times the correctly flipped rate

Say this is the rate $\frac{\$1}{€.95}$ And you have €20 (how much $ is this?)

$\cancel{€}20 * \frac{\$1}{\cancel{€}.95}$ This can work

$\frac{20 * \$1}{.95} = \boxed{\$21}$

How exchange rates affect imports and exports

Foreign customers must buy U.S. products with U.S. dollars. They will trade their own currency for dollars first. If the dollar is in high demand globally, it is considered “strong.” People will pay more for a dollar.

“Weak” foreign currency won’t buy as many dollars, and U.S. products appear expensive. If the dollar is weak, then a foreign currency could buy more dollars, which will buy more product for their original money.

So a strong dollar can result in lower exports and higher imports, and vice versa.

Observations:

- One must pay for U.S. products with U.S. dollars.
- If the dollar is weak, more dollars can be bought for the same amount of foreign currency.
- Having *more* dollars makes U.S. goods appear cheaper to foreigners, and can boost AD and our GDP (CIG<u>X</u>).
- A strong dollar costs more to buy with foreign currency. U.S. products will cost more since it costs more to get dollars. This will decrease U.S. exports.

Questions

1. You’re in Mexico and have 25 Pesos. Do you think you can buy a fancy dinner with that?
2. How many JPY ¥ can $100 buy?
3. If you had €100, how many dollars would that be worth?
4. If the demand for dollars increased, how would that affect your export business?
5. How would that (higher demand for dollars) affect you as a tourist in other countries?

1. No, it’s only worth $1.29.
2. ¥13914.6
3. $104
4. My exports would appear more expensive to foreigners and decrease.