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| **Item** |  |  |  | **3.2 Exchange rates** | **Reading** | **Example** | **U-tube** | **W**  **E**  **I**  **G**  **H**  **T** | **W**  **E**  **B**  **N**  **O**  **T**  **E** |
| **Freely floating exchange rates** | | | | | | | | | |
| **139** |  |  | Determination of freely  floating exchange rates | • Explain that the value of an exchange rate in a floating system is determined by the  demand for, and supply of, a currency.  • Draw a diagram to show  determination of exchange  rates in a floating exchange  rate system. |  | **Example** | **U-tube** | **3** |  |
| **140**  **HL Only** |  |  | Determination of freely  floating exchange rates | • Calculate the value of one  currency in terms of another currency.  • Calculate the exchange rate for linear demand and supply functions.  • Plot demand and supply  curves for a currency from  linear functions and identify  the equilibrium exchange rate.  • Using exchange rates,  calculate the price of a good in different currencies. |  | **Example** | **U-tube** | **3** |  |
| **141** |  |  | Causes of changes in the  exchange rate | • Describe the factors that  lead to changes in currency  demand and supply, including foreign demand for a country’s exports, domestic demand for imports, relative  interest rates, relative inflation rates, investment from overseas in a country’s firms (foreign direct investment and portfolio investment) and speculation.  • Distinguish between a  depreciation of the currency  and an appreciation of the  currency.  • Draw diagrams to show  changes in the demand for,  and supply of, a currency. |  | **Example** | **U-tube** | **3** |  |
| **142**  **HL Only** |  |  | Causes of changes in the  exchange rate | • Calculate the changes in the value of a currency from a setof data. |  | **Example** | **U-tube** | **3** |  |
| **143** |  |  | The effects of exchange  rate changes | • Evaluate the possible  economic consequences of  a change in the value of a  currency, including the effects on a country’s inflation rate, employment, economic growth and current account balance. |  | **Example** | **U-tube** | **5** |  |
| **Item** | **hl** | **sl** | **Must Know** | **Must know very well! Here are the details of what you need to know.** | **Reading** | **Example** | **U-tube** | **W**  **E**  **I**  **G**  **H**  **T** | **W**  **E**  **B**  **N**  **O**  **T**  **E** |
|  |  |  |  | **Government intervention** |  | **Example** | **U-tube** |  |  |
| **144** |  |  | Fixed exchange rates | • Describe a fixed exchange rate system involving commitment  to a single fixed rate.  • Distinguish between a  devaluation of a currency and a revaluation of a currency.  • Explain, using a diagram,  how a fixed exchange rate is maintained. |  | **Example** | **U-tube** | **4** |  |
| **145** |  |  | Managed exchange rates  (managed float) | • Explain how a managed  exchange rate operates, with reference to the fact that there is a periodic government intervention to influence the value of an exchange rate.  • Examine the possible  consequences of overvalued and undervalued currencies. | No info in Blink. Use webnotes and resources in LRC  See also PPP as this concept is relevant to PPP. See webnote 415 in Section 3 | **NOTE:**  There is a link here with item **32** in section 1.3  Take a look at web 223 and buffer stock systems.  Same diagram for both concepts. See item 168. |  | **4** | See also Web 223. |
| **146** |  |  | Evaluation of different  exchange rate systems | • Compare and contrast a fixed exchange rate system with a floating exchange rate system, with reference to factors including the degree of certainty for stakeholders, ease of adjustment, the role of international reserves in the  form of foreign currencies and flexibility offered to policy makers. |  | **Example** | **U-tube** | **4** |  |