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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 freelyfloating exchange rates | • Explain that the value of an exchange rate in a floating system is determined by thedemand for, and supply of, a currency.• Draw a diagram to showdetermination of exchangerates in a floating exchangerate system. |  | **Example** | **U-tube** | **3** |  |
| **140****HL Only** |  |  | Determination of freelyfloating exchange rates | • Calculate the value of onecurrency in terms of another currency.• Calculate the exchange rate for linear demand and supply functions.• Plot demand and supplycurves for a currency fromlinear functions and identifythe equilibrium exchange rate.• Using exchange rates,calculate the price of a good in different currencies. |  | **Example** | **U-tube** | **3** |  |
| **141** |  |  | Causes of changes in theexchange rate | • Describe the factors thatlead to changes in currencydemand and supply, including foreign demand for a country’s exports, domestic demand for imports, relativeinterest rates, relative inflation rates, investment from overseas in a country’s firms (foreign direct investment and portfolio investment) and speculation.• Distinguish between adepreciation of the currencyand an appreciation of thecurrency.• Draw diagrams to showchanges in the demand for,and supply of, a currency. |  | **Example** | **U-tube** | **3** |  |
| **142****HL Only** |  |  | Causes of changes in theexchange rate | • Calculate the changes in the value of a currency from a setof data. |  | **Example** | **U-tube** | **3** |  |
| **143** |  |  | The effects of exchangerate changes | • Evaluate the possibleeconomic consequences ofa change in the value of acurrency, 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 commitmentto a single fixed rate.• Distinguish between adevaluation 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 managedexchange rate operates, with reference to the fact that there is a periodic government intervention to influence the value of an exchange rate.• Examine the possibleconsequences of overvalued and undervalued currencies. | No info in Blink. Use webnotes and resources in LRCSee 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 1.3Take 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 differentexchange 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 theform of foreign currencies and flexibility offered to policy makers. |  | **Example** | **U-tube** | **4** |  |