6.3 Foreign Exchange Rates

Question Paper

Course	CIE IGCSE Economics
Section	6. International Trade & Globalisation
Topic	6.3 Foreign Exchange Rates
Difficulty	Medium

Time allowed: 20

Score: /9

Percentage: /100

Question 1

What would increase the demand for a country's currency on the foreign exchange market?

A. a decrease in its inward investment

B. a decrease in its rate of interest

C. an increase in its exports

D. an increase in its imports

[1 mark]

Question 2

What usually decreases when there is a depreciation of a country's foreign exchange rate?

A. the level of national debt

B. the level of trade protection

C. the price of exports

D. the price of imports

[1 mark]

Question 3

The world demand for oil is price-inelastic and oil is paid for in US dollars.
If the price of oil falls rapidly, how might it affect the exchange rate of the US dollar?

	market for US dollar	exchange rate for US dollar
A	greater demand for US$	value increases
B	greater supply of US$	value falls
C	less demand for US$	value falls
D	less supply of US$	value increases

[1 mark]

Question 4

What is meant by a depreciation in the foreign exchange rate?

A. The government intervenes to reduce the exchange rate of the country's currency.

B. The rate of exchange of exports for imports for a country deteriorates.

C. The rate of inflation in a country continues to rise.

D. The value of a country's currency falls on the international exchange market.

[1 mark]

Question 5

The table shows the current account balance for four countries in 2016. It also shows each country's exchange rate against the US dollar for 2015 and 2016.

Which country had a trade surplus and a strengthened currency against the US dollar?

	country	current account balance US$ billion 2016	number of units of currency against US dollar	
			2015	2016
A	Australia	−47.9	1.39	1.38
B	Belgium	+4.8	0.92	0.96
C	China	+266.6	6.48	6.95
D	Taiwan	+74.7	32.90	32.00

[1 mark]

Question 6

Changes in the foreign exchange rate of a country resulted in a depreciation of its currency.

What is not likely to happen?

A. The costs of imported raw materials will fall.

B. The country's export trading position will become more competitive.

C. The country's residents will find it more expensive to take holidays abroad.

D. The current account deficit will be unchanged.

[1 mark]

Question 7

What is the most accurate definition of a foreign exchange rate?

A. a rate at which exports are exchanged for imports

B. a rate determined by the demand and supply of the currency

C. a value of a currency as fixed by the government

D. a value of a currency expressed in terms of another currency

[1 mark]

Question 8

A country has experienced a devaluation of its currency.

What are the likely results of the devaluation?

	imports	exports
A	price decreases	value decreases
B	price decreases	value increases
C	price increases	quantity decreases
D	price increases	quantity increases

[1 mark]

Question 9

The Mexican currency (the peso) has fallen in value against the US dollar.

What will be the effect of this on the Mexican economy?

A. a decrease in tariffs on imports

B. a decrease in the price of exports

C. a decrease in the price of imports

D. a decrease in the volume of exports

[1 mark]