

6.3 Foreign Exchange Rates

Question Paper

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

Time allowed: 80
Score: /63
Percentage: /100

Question 1

Wage rate growth has increased recently in Kazakhstan, but its economic growth rate has slowed. This is, in part, due to a fall in exports. To try to increase the economic growth rate, the government has increased its spending on investment. In August 2015, it adopted a floating foreign exchange rate system in an attempt to improve the country's macroeconomic performance.

Discuss whether or not a country should switch from a fixed foreign exchange rate system to a floating foreign exchange rate system.

[8 marks]

Question 2

The Indian government subsidises the country's exports of cotton textiles. The USA, the largest buyer of Indian cotton textiles, benefited from this. India planned to stop the subsidy by 2019. This was welcomed by other cotton textile exporters. The USA may not be much affected, in part, because income usually rises in the country. The value of the Indian rupee against the US dollar was relatively stable in this period but rose slightly in mid-2017

Analyse how a rise in a country's foreign exchange rate may affect its unemployment rate

[6 marks]

Question 3

Explain, using information from the extract, why a depreciation of the kwacha harmed the Zambian economy.

Refer to the [source material](#) in your answers.

[4 marks]

Question 4

The Saudi Arabian government is encouraging the growth of the private sector. It is a low-cost oil producer, but its exports to South Africa have fallen recently. South Africa has a floating foreign exchange rate, but its central bank has recently tried to prevent a large fall in its foreign exchange rate.

Define a **floating** foreign exchange rate.

[2 marks]

Question 5

The Saudi Arabian government is encouraging the growth of the private sector. It is a low-cost oil producer, but its exports to South Africa have fallen recently. South Africa has a floating foreign exchange rate, but its central bank has recently tried to prevent a large fall in its foreign exchange rate.

Discuss whether or not a government should prevent a fall in its country's foreign exchange rate.

[8 marks]

Question 6

After the UK's decision to leave the European Union (EU) in June 2016, the value of the British currency, the pound (£), depreciated. However, in August 2016, despite the fall in the value of the £, the Bank of England reduced interest rates from 0.5% to 0.25%. This was to encourage further spending and borrowing to avoid a lower economic growth rate.

Analyse two consequences of a depreciating foreign exchange rate.

[6 marks]

Question 7

Mexico has recently experienced relatively low inflation and the Mexican government wants to maintain this price stability. Despite this its currency has fallen in value with each Mexican peso exchanging for less foreign currency. The government is also trying to reduce pollution in the country. One key cause of pollution in Mexico is car travel. Driving has both private and external costs.

Discuss whether or not a fall in its foreign exchange rate will benefit an economy.

[8 marks]

Question 8

Analyse what may cause a depreciation in an exchange rate.

Refer to the [source material](#) in your answers.

[5 marks]

Question 9

In 2014, the government of Kazakhstan devalued its currency, the tenge. A year later the country still had a current account deficit. Therefore, in 2016 it considered adopting a floating exchange rate which might help to remove the deficit. However, it had concerns that this might affect the country's inflation rate which was already high at 17%.

Define *devaluation*.

[2 marks]

Question 10

In 2014, the government of Kazakhstan devalued its currency, the tenge. A year later the country still had a current account deficit. Therefore, in 2016 it considered adopting a floating exchange rate which might help to remove the deficit. However, it had concerns that this might affect the country's inflation rate which was already high at 17%.

Explain **two** advantages of a floating exchange rate.

[4 marks]

Question 11

In 2016, there were fears that the Singaporean economy could enter a recession because of falling demand from China, its biggest export market. One of the results of a recession is likely to be a fall in consumer spending. A previous recession in 2008 had led to unemployment increasing from 1.6% to 3.4%. Singapore's central bank therefore decided to intervene in the foreign exchange market to influence the value of the currency.

Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession.

[8 marks]

Question 12

Identify, using information from the extract, **two** ways a central bank could try to stop a fall in the international value of its currency.

Refer to the [source material](#) in your answers.

[2 marks]