Chapter 38

FOREIGN EXCHANGE RATES

Key terms

1. Foreign exchange rate : price of one currency in terms of another currency e.g. 1$ = 32฿, 1£ = 42฿
2. Fixed exchange rate : an exchange rate whose value is set at a particular level in terms of another currency.
4. Devaluation : a fall in the value of a fixed exchange rate.
5. Revaluation : a rise in the value of a fixed exchange rate.
6. Floating exchange rate: an exchange rate which is determined by demand and supply of a currency
7. Appreciation : a rise in the value of a floating exchange rate.
8. Depreciation : a fall in the value of a floating exchange rate.
9. Foreign Direct Investment (FDI) : setting up production units or buying existing production units in another country.
10. Hot money flows: the movement of money around the world to take advantage of differences in interest rates and exchange rate.

1. Foreign exchange rate systems

: price of one currency in terms of another currency e.g. 1£ = 40 ฿

Floating exchange rate	Fixed exchange rate
• is determined by demand and supply of a currency without government intervention • Depreciated currency : a fall in the value of a floating exchange rate • Appreciated currency : a rise In the value of a floating exchange rate	• is the value of a currency that is fixed against another currency by the government. • Devaluation : a fall in a fixed exchange rate • Revaluation : a rise in a fixed exchange rate

2. The determination of foreign exchange rate

- Price of domestic goods and foreign goods
- Quality of domestic goods and foreign goods
- Speculation
- Interest rate etc.

3. The consequences of a change in the exchange rate

E.g A fall in exchange rate or currency depreciation

Positive consequences	Negative consequences
• Balance of payment improved • Economic growth • High employment	• Higher inflation • Depreciation currency might reflect a country's instability

4. Advantages and disadvantages of floating exchange rates system

Advantages	Disadvantges
• Floating exchange rate helps balance in trade • Government can focus on other objectives	• A fluctuation in exchange rate may discourage FDI • Speculation can cause currency fluctuation

5. Factors increasing international competitiveness

- Education and training
- Investment and Expenditure on research and development
- Developed infrastructure
- Currency depreciation
- Relatively low inflation