

Chapter 11

International Trade and Exchange rates

1. International trade

Meaning : International trade benefits the world. It creates opportunities for business growth, increase competition and provides more consumer choice.

2. Visible and invisible trade

- Visible trade : trade in physical goods
- Invisible trade : trade in services
- Balance of trade (or visible balance) : difference between visible exports and visible imports

3. What is an exchange rate

Exchange rate : value of one currency in terms of another

Eg. 1 USD = 30 THB

1 USD = 35 THB

: USD becomes appreciated against THB while THB becomes depreciated against USD

: **Appreciated currency** meaning : An increase in one currency against other currency

: **Depreciated currency** meaning : A decrease in one currency against other currency

4. Fall in the exchange rate

For example : Look at what happens when the exchange rate falls from 1 USD = 1.5 British pound to 1 USD to 1.2 British pound

Impact on exports	Price of US export falls in foreigner's view. It leads to higher demand for US export, resulting in higher export revenue.
Impact on imports	Price of imported raw material rises in US view. It leads to lower demand for imported raw material from abroad.

5. Rise in the exchange rate

For example : Look at what happens when the exchange rate rises from 1 USD = 1.5 British pound to 1 USD to 2.0 British pound

Impact on exports	Price of US export rises in foreigner's view. It leads to lower demand for US export, resulting in lower export revenue.
Impact on imports	Price of imported raw material falls in US view. It leads to higher demand for imported raw material from abroad.

6. International competitiveness and exchange rates

: Varying exchange rate causes uncertainty. This makes planning and budgeting more difficult for business.