

# The Foreign Exchange Market

Within an economy prices are stated in the domestic currency. For example, in the United States, prices are stated in dollars and in Europe prices are stated in euros. Buyers use the domestic currency to purchase domestic goods. However, when goods are purchased from another country, they must be paid for in that country's domestic currency. Exporters are paid in the domestic currencies so they can spend it domestically. As a result, international trade requires that currencies also be traded. Currencies are traded in *foreign exchange markets*. The equilibrium price at which currencies are traded is called the *exchange rate*. An exchange rate is the rate at which the currency of one country is exchanged for the currency of another.

Table 7-3.1 shows the exchange rates for selected countries for May and August of the same year.



Table 7-3.1  
**Exchange Rates**

	Cost of foreign currency in U.S. dollars (U.S. dollars/foreign currency)		Cost of U.S. dollar in foreign currency (foreign currency/U.S. dollars)	
	May	August	May	August
British pound	1.4	1.8	0.71	0.56
Canadian dollar	0.64	0.63	1.5625	1.5873
European euro	0.87	0.91	1.149	1.099
Swedish krona	0.094	0.093	10.638	10.753
Japanese yen	0.0083	0.0090	120.482	111.111
Mexican peso	0.1101	0.1502	9.083	6.6558

Use the data in the table to calculate the cost of the following products in U.S. dollars. To solve, divide the cost of the product in the foreign currency by the cost of the U.S. dollar in the foreign currency. Indicate whether the dollar has appreciated or depreciated between May and August.

	May	August	Appreciated or Depreciated
1. A dinner for two that costs 500 Mexican pesos			
2. A hotel room that costs 30,000 Japanese yen			
3. A BMW that costs 85,000 euros in Germany			
4. A pound of Swedish meatballs that costs 30 kronor			
5. A pair of pants that costs 72 pounds in London			
6. A leather jacket that costs 1,800 Canadian dollars			