Money Across Borders

How currency exchange makes international trade possible

SS6E11.c "Explain why international trade requires a system for exchanging currency between nations."

NAME ______________________ DATE ______________

1 READ AND MARK

Read it twice

YOUR JOB Underline the two sentences that begin with "Because." They explain why countries need a system for exchanging currency when they trade.

Trading in Different Currencies

1 Australia trades with countries that use different money. A company in Australia might sell wheat to a food maker in Japan. The Australian seller may price the wheat in Australian dollars, while the Japanese buyer has Japanese yen. Each currency has its own value. The seller needs payment it can use in Australia, and the buyer needs to know how many yen will pay for the order. When they trade, they must connect these two currencies.

2 An exchange rate compares the value of one currency with another. It can change from day to day as people buy and sell currencies. Because the buyer cannot normally pay an Australian business with yen alone, the yen must be exchanged for Australian dollars or its value must be converted into an agreed payment. Because exchange rates tell how much one currency is worth in another, both sides can determine an amount to send and receive.

3 Currency exchange can happen through banks, currency markets, or payment services. These systems quote an exchange rate and change one currency into another. For example, an Australian shop ordering cameras from South Korea may use Australian dollars to obtain South Korean won. The Korean supplier can then receive won. If the Australian dollar becomes stronger against the won, each Australian dollar buys more won, so the same won-priced cameras cost fewer Australian dollars. Exchange systems make this payment possible and help traders compare costs.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why do the Australian wheat seller and the Japanese buyer need to connect Australian dollars and Japanese yen?

2. What does an exchange rate compare, and how does it help both sides of a trade?

3. Why must the Japanese buyer exchange yen or convert its value before paying the Australian business?

4. What happens to the Australian shop's cost in Australian dollars if the Australian dollar becomes stronger against the South Korean won?

3 YOUR TURN

Your own words

Invent a trade between an Australian business and a business in a country not named in the passage. In 2 or 3 sentences, name both currencies, explain why exchange is needed, and tell what happens to the Australian buyer's cost if the Australian dollar becomes stronger against the other currency.

PART 1 · READ AND MARK

Underline the two sentences that begin with "Because." They explain why countries need a system for exchanging currency when they trade. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why do the Australian wheat seller and the Japanese buyer need to connect Australian dollars and Japanese yen?	**The seller needs payment it can use in Australia, while the buyer has yen and needs to know how many yen to pay.**
2	What does an exchange rate compare, and how does it help both sides of a trade?	**It compares the value of one currency with another and helps both sides determine an amount to send and receive.**
3	Why must the Japanese buyer exchange yen or convert its value before paying the Australian business?	**The buyer cannot normally pay the Australian business with yen alone. The business needs Australian dollars or an agreed converted payment.**
4	What happens to the Australian shop's cost in Australian dollars if the Australian dollar becomes stronger against the South Korean won?	**The shop's cost falls because each Australian dollar buys more won, so the same won-priced cameras cost fewer Australian dollars.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

An Australian bookstore buys novels from a business in France, so Australian dollars must be exchanged for euros because the French seller needs euros. If the Australian dollar becomes stronger against the euro, each Australian dollar buys more euros, so the same euro-priced novels cost fewer Australian dollars.

Accept accurate explanations that both trading partners use different currencies and need a way to convert or compare their values. For the open task, accept any valid country-currency pair and the correct stronger-Australian-dollar effect: the buyer needs fewer Australian dollars for the same foreign-currency price.