Dollar Decisions

Track purchasing power and currency values in global transactions.

12.E1d "To be an informed participant in the global economy, one must be aware of inflation and have an understanding of how international currencies fluctuate in value relative to the United States dollar."

NAME ______________________________ DATE ______________

1 READ AND MARK

Read it twice

YOUR JOB Underline inflation effects. Circle exchange-rate quotes and converted prices. Mark who gains or loses.

Prices Across Borders

1 Inflation is a rise in the general price level, not just one product becoming dearer. It reduces what a fixed dollar amount can buy. If household costs rise while pay stays fixed, purchasing power falls and the budget may need revision. Inflation rates measure percentage changes in price indexes; households experience different effects because their purchases differ. Slower positive inflation still means the general price level is rising.

2 Exchange rates compare currencies. In a hypothetical example, €0.80 per U.S. dollar means $1 buys €0.80. At €0.90 per dollar, the dollar is stronger against the euro because it buys more euros. A €90 hotel room costs 90 ÷ 0.80 = $112.50 at the first rate and 90 ÷ 0.90 = $100 at the second, before fees. A weaker dollar requires more dollars for an unchanged euro price. Interest rates, economic conditions, trade, and expectations can affect currency demand.

3 Inflation and exchange-rate changes are distinct, although both can affect a bill. A stronger dollar can lower the dollar cost of a foreign-priced item. A rise in that item's foreign price could offset this saving; general foreign inflation may contribute, but does not establish how every individual price changes. A weaker dollar may make dollar-priced U.S. exports cheaper for foreign buyers. Actual prices also depend on contracts, fees, and seller decisions. Compare dated exchange quotes and prices in both currencies before attributing a cost change to one cause.

2 ANSWER WITH EVIDENCE

Use the passage

1. A worker's pay stays fixed while groceries, transit, and utilities cost more. What happens to the worker's purchasing power, and what budget response does the passage name?

2. Using the passage's two exchange rates, what is the dollar cost of a €90 hotel room at €0.80 per dollar and at €0.90 per dollar?

3. Why does the passage describe the move from €0.80 to €0.90 per U.S. dollar as a stronger dollar? State the effect on a U.S. traveler buying euros.

4. Name two separate changes that can affect the dollar cost of an imported item. How could those changes partly offset each other?

3 YOUR TURN

Your own words

A jacket costs €120. On Monday, $1 buys €0.80. On Friday, $1 buys €0.75. Write exactly 3 sentences that calculate the jacket's dollar cost on both days, choose which day you would buy it if all else stayed equal, and explain why this change does not by itself prove inflation.

Dollar Decisions

PART 1 · READ AND MARK

Underline inflation effects. Circle exchange-rate quotes and converted prices. Mark who gains or loses. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	A worker's pay stays fixed while groceries, transit, and utilities cost more. What happens to the worker's purchasing power, and what budget response does the passage name?	**The worker's purchasing power falls because each dollar buys fewer goods and services. The worker may revise the budget or reduce other spending.**
2	Using the passage's two exchange rates, what is the dollar cost of a €90 hotel room at €0.80 per dollar and at €0.90 per dollar?	**At €0.80 per dollar, the room costs $112.50. At €0.90 per dollar, it costs $100.**
3	Why does the passage describe the move from €0.80 to €0.90 per U.S. dollar as a stronger dollar? State the effect on a U.S. traveler buying euros.	**Each U.S. dollar buys more euros, so the dollar has strengthened against the euro. A U.S. traveler needs fewer dollars for the same euro-priced item.**
4	Name two separate changes that can affect the dollar cost of an imported item. How could those changes partly offset each other?	**The exchange rate and the item’s foreign-currency price can change. A stronger dollar can lower the converted cost while a foreign-price increase raises it.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

On Monday the jacket costs $150, since 120 ÷ 0.80 = 150. On Friday it costs $160, since 120 ÷ 0.75 = 160, so Monday is cheaper if all else is equal. The euro price is unchanged, and this currency movement alone does not show a rise in the general price level.

Accept equivalent calculations: $150 Monday and $160 Friday. Students should distinguish exchange-rate changes from general inflation, not treat one product’s price as proof of economy-wide inflation.