Prices Across Borders

How currency changes affect buyers and sellers

E.C.11.4 "Explain how exchange rates affect international trade and purchasing power."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline both new exchange rates, circle the two unchanged product prices in paragraph 2, and number the two conversion steps 1 and 2 to track how a rate change affects what buyers can afford.

A Kettle, Headphones, and Two Currencies

1. At a weekend market in Seattle, a shop sells kettles made in Japan while a nearby company ships American headphones to stores in Tokyo. Both businesses must compare prices in two currencies. An exchange rate tells how much of one currency can be traded for another. Suppose one US dollar buys 100 Japanese yen. A kettle priced at 10,000 yen costs $100 before shipping or taxes. Headphones priced at $200 cost 20,000 yen for a Japanese store before shipping or taxes. These starting prices give each buyer a point of comparison when the exchange rate changes.

2. Now suppose one dollar buys 125 yen. The kettle still has a price tag of 10,000 yen in Japan, and the headphones still have a price tag of $200 in the United States. To find the kettle's dollar cost, divide its yen price by the number of yen per dollar. To find the headphones' yen cost, multiply their dollar price by that same number. No product has changed, yet a buyer's purchasing power has changed: a dollar now commands more yen, while a yen buys fewer dollars. Shipping costs and taxes could also affect the final price.

3. Consider a different possibility: instead of rising to 125 yen, one dollar falls from 100 yen to 80 yen. The price tags remain 10,000 yen for the kettle and $200 for the headphones. At this rate, a dollar commands fewer yen, but each yen can buy more dollars. A Seattle shop comparing Japanese suppliers might change its orders, and a Tokyo store comparing foreign headphones might do the same. Exchange rates can therefore influence import and export sales, even when firms do not change their listed prices. They do not guarantee a sale, since quality and delivery times matter too.

2 ANSWER WITH EVIDENCE

Use the passage

1. When one dollar buys 125 yen, what does the kettle cost in dollars? Explain how this changes the Seattle shop's purchasing power compared with the starting rate.

2. When one dollar buys 125 yen, what do the headphones cost in yen? Explain how this change could affect sales of American headphones in Japan.

3. If one dollar buys 80 yen instead of 100 yen, what does the kettle cost in dollars? Explain one possible effect on the Seattle shop's imports.

4. If one dollar buys 80 yen instead of 100 yen, what do the headphones cost in yen? Explain one possible effect on American headphone exports.

3 YOUR TURN

Your own words

A US shop imports shoes priced at €90, and a French shop imports US jackets priced at $60. The rate changes from $1 = €0.90 to $1 = €1.00. In four sentences, calculate each item's cost in the importing shop's currency before and after the change, then explain how each price shift could affect trade.

ANSWER KEY

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HIGH SCHOOL · E.C.11.4

PART 1 · READ AND MARK

Underline both new exchange rates, circle the two unchanged product prices in paragraph 2, and number the two conversion steps 1 and 2 to track how a rate change affects what buyers can afford. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	When one dollar buys 125 yen, what does the kettle cost in dollars? Explain how this changes the Seattle shop's purchasing power compared with the starting rate.	**The kettle costs $80 instead of $100. Each dollar buys more yen, so the shop can buy the kettle with fewer dollars.**
2	When one dollar buys 125 yen, what do the headphones cost in yen? Explain how this change could affect sales of American headphones in Japan.	**The headphones cost 25,000 yen instead of 20,000 yen. Their higher yen price could reduce sales in Japan.**
3	If one dollar buys 80 yen instead of 100 yen, what does the kettle cost in dollars? Explain one possible effect on the Seattle shop's imports.	**The kettle costs $125 instead of $100. The shop might import fewer Japanese kettles because they cost more dollars.**
4	If one dollar buys 80 yen instead of 100 yen, what do the headphones cost in yen? Explain one possible effect on American headphone exports.	**The headphones cost 16,000 yen instead of 20,000 yen. The lower yen price could increase American headphone sales in Japan.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

The €90 shoes cost the US shop $100 at the first rate and $90 at the second rate. Since the dollar buys more euros, the US shop may find French shoes more affordable and import more. The $60 jackets cost the French shop €54 at the first rate and €60 at the second rate. The higher euro cost could make US jackets less appealing in France, reducing US exports.

Accept trade predictions stated as possibilities, not certainties. Calculations assume the listed product prices stay fixed and exclude shipping and taxes.