

What is an Exchange Rate?

Worksheet

An exchange rate is the price of one currency expressed in terms of another currency. For example, if USD/EUR = 0.92, then 1 USD equals 0.92 EUR.

$$A_{\text{(foreign)}} = R \times A_{\text{(home)}}$$

$A_{\text{(foreign)}}$ = Amount in foreign currency (units)

R = Exchange rate (foreign per home) (ratio)

$A_{\text{(home)}}$ = Amount in home currency (units)

Questions

1. EUR/USD = 1.09. How many dollars is 100 EUR?

- A) 91.74 USD
- B) 109 USD
- C) 100 USD
- D) 1.09 USD

2. Which event typically weakens a currency?

- A) High interest rates
- B) Low inflation
- C) High inflation
- D) Strong GDP growth

3. Currency appreciation means the exchange rate...

- A) stays constant
- B) increases (more of other currency per unit)
- C) decreases (less of other currency per unit)
- D) becomes zero

4. Which is NOT a factor affecting forex rates?

- A) Central bank policy
- B) Inflation
- C) Moon phases
- D) Trade deficits

5. If USD/EUR = 0.92 and you have 100 USD, how many EUR do you receive?

6. GBP/USD = 1.27. Convert 50 GBP to USD.

7. JPY/USD = 0.0067. How many USD is 100,000 JPY?

8. Define: What is an exchange rate?

9. Define: If USD/EUR = 0.92, what does this mean?

10. Define: What causes exchange rates to change?

Answer Key

1. B) 109 USD — $100 \text{ EUR} \times 1.09 \text{ USD/EUR} = 109 \text{ USD}$.
2. C) High inflation — High inflation reduces purchasing power, weakening the currency internationally.
3. B) increases (more of other currency per unit) — Appreciation means the currency is stronger, so you get more foreign currency.
4. C) Moon phases — Moon phases do not affect economic factors; inflation, policy and trade do.
5. $\text{EUR} = \text{Rate} \times \text{Amount EUR} = 0.92 \times 100 \text{ EUR} = 92$
6. $\text{USD} = 1.27 \times 50 \text{ USD} = 63.50$
7. $\text{USD} = 0.0067 \times 100,000 \text{ USD} = 670$
8. The price of one currency expressed in terms of another currency.
9. 1 USD equals 0.92 EUR.
10. Interest rates, inflation, trade balances, and political stability.

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