

Exchange Rates and the Value of the Dollar

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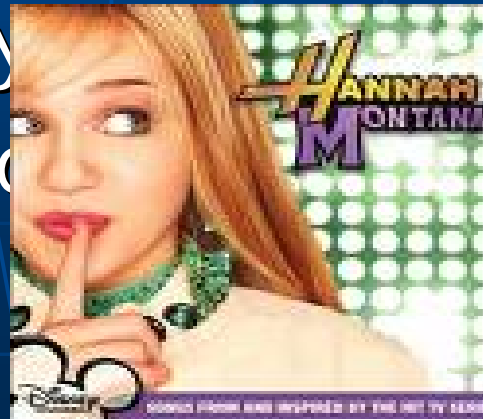
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The Plan for Today

1. The Basic – and somewhat boring.
2. **The More Interactive –
and slightly more fun.**

BACKGROUND

- Remind them of Supply and Demand
- Review who buyers and sellers are and what they want
- In this market the buyers are those who want dollars – like those who want Hannah Montana tickets
- Why do they want dollars?
- Buy US goods, services, assets, travel, etc.

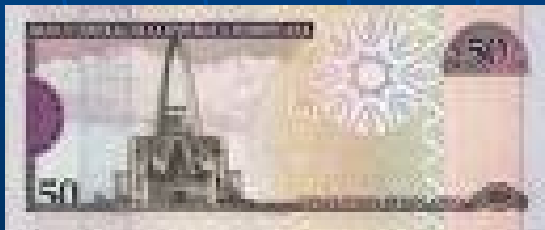


BACKGROUND 2

- Sellers are those who have dollars – like you – or the sellers of HM tickets
- Why would you supply dollars?
- You want foreign goods, you want foreign assets, travel, etc.
- Now you're set.

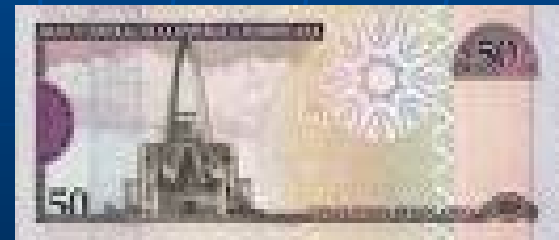
What Impacts the Value of the Dollar?

- Why can you trade dollars for Dominican pesos ...



What Impacts the Value of the Dollar?

- ... but not the other way around?

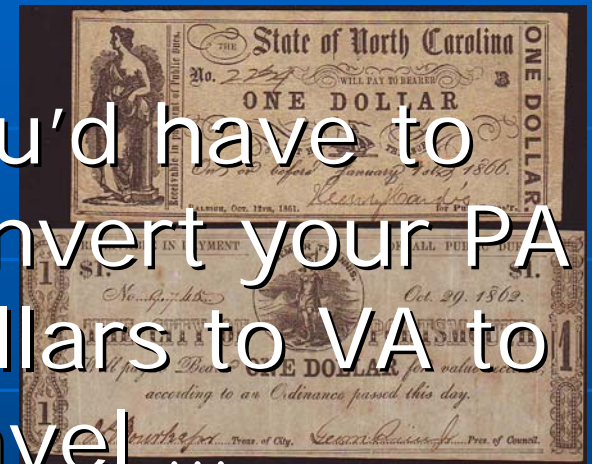


What Impacts the Value of the Dollar?

- Just like anything else – Supply and Demand
- Supply – too much devalues currency
- Demand – trade for goods and financial assets

Why do we have exchange rates?

- What if every state you traveled to had its own currency???



- You'd have to convert your PA dollars to VA to travel ...



- ... or to buy goods from another state

Most countries have their own money

- Dollars – USA
- Pounds – Britain
- Yen – Japan
- Pesos – Mexico
- Euros – most of Europe



Is anything you buy not made in the USA?

- Wii
- Coffee
- Clothes
- Cars
- Travel

Why is this important?



How do you get what you want from Japan?

- You need to pay for it in Yen
- QUESTION: How do you get Yen?
- ANSWER: You trade for it

Since there are buyers and sellers you must have a MARKET.

You will also have a PRICE –
exchange rate

Prices in markets change

- What affects exchange rates?
- It's a market – so D and S
- Wanna see how this works?
- **PLAY A GAME!!!**

Why do Prices Change: 2

- It's money so value of money affects this too.
- This means MONETARY POLICY can change the exchange rate
- Interest rates – if you want US assets, this is the attraction
- Trade – the demand for foreign made goods

There's your basics

Now the fun!!!

Reinforcement 1: Context

- Pay for grades
- Poker

Adjust the way you grade

In order to get into the feel of the exchange concepts of the class, you must *buy your grades*. As in real life however, you will need to *perform a service* to obtain the proper funding. You earn money for your performance on exams, and quizzes. If you have enough money at the end of the semester to buy an A, it is yours.

Note: All prices in U.S. Dollars

Quizzes:	\$8,000	A \geq \$90,000
Exams:	\$92,000	B \geq \$80,000
		C \geq \$70,000
		etc.

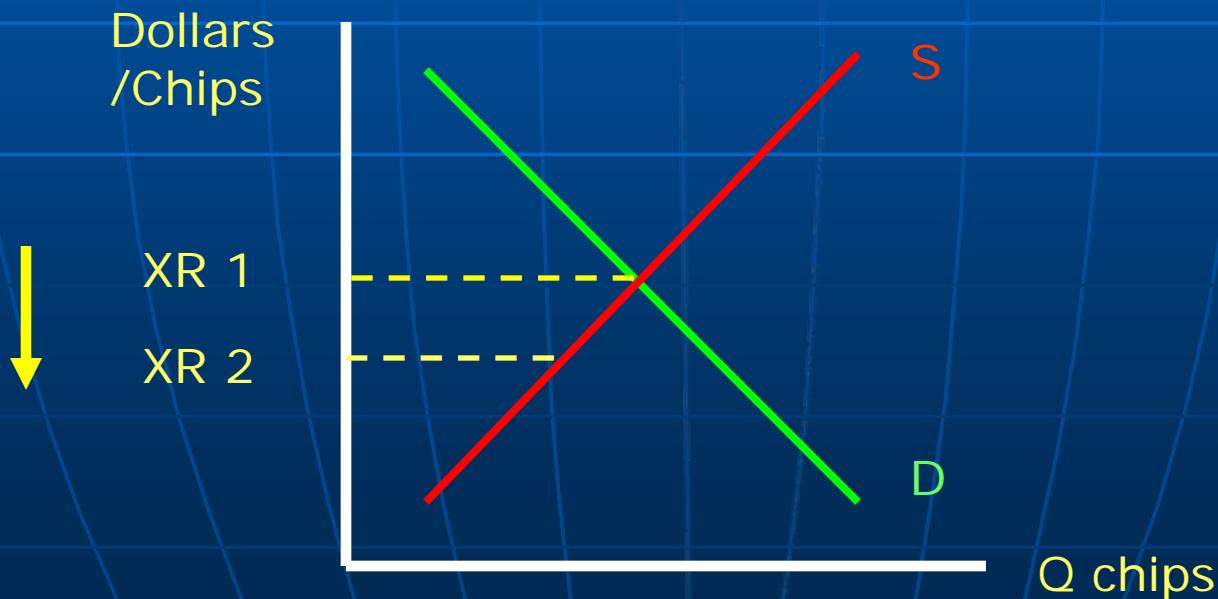
POKER

- You need chips
- Trade your money for chips
- At the end of the game... You want money
- Trade your chips for money



Demand for chips has fallen

- (Assume that you have same number of chips but you can't buy as many dollars)
- So, exchange rate falls



Reinforcement 2

- Follow the market
- Give \$x worth of extra credit in a foreign currency
- Begin a month or two out from when you will deal with exchange rates
- Once a week update the value of the XC – discuss major changes
- When you get to exchange rates they'll have a bit of knowledge

Reinforcement 3: Examples from the Simpsons

- 3 men and a Comic Book
- 30 minutes over Tokyo



Reinforcement 4: Ask Questions

- Why does Bart only get \$0.03 for his foreign money?
- Determine the exchange rate of yen based on watermelon prices. A real exchange rate.
- Would Bart be happy if the dollar got stronger or weaker?

Question 2

- What kind of country would you want to live in, one with a strong currency or one with a weak currency?
Why?

Question 3

- Why would the Fed/Treasury Dept. want a weak currency?
- Why would China want a weak currency?

Reinforcement 5: The Game

- You want the super cool OMNI WIDGET 3000.
- It is made in 4 countries around the world.
- To get it, you must pay in those countries' currencies.

CONCLUSION

- Have a hook
- Make it relevant – or at least fun
- Try and tie it in early – give them a taste early on so if you are running short on time it isn't a totally new concept