IGCSE ECONOMICS · 2.2 THE GLOBAL ECONOMY · CHAPTER 42 · PAPER 2

The Impact of Changing Exchange Rates

Topic question sheet L42 | **Total: 31 marks** | **Time: 35 minutes** | **Student Book pp. 340–347**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 If US$1 = €1.2, the cost in euros to a German firm buying US$6 700 000 of US goods is: **(1)**

A €5 583 333 **B** €6 700 000
C €8 040 000 **D** €804 000

2 Which of the following will improve a country's international competitiveness? **(1)**

A An appreciation of the exchange rate **B** Higher inflation
C A depreciation of the exchange rate **D** Higher costs

3 When a government fixes a new, higher exchange rate, the currency is: **(1)**

A depreciated **B** devalued
C appreciated **D** revalued

4 A depreciation is most likely to improve the current account if demand for exports and imports is: **(1)**

A price inelastic **B** price elastic
C income inelastic **D** perfectly inelastic

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 Define **depreciation**. **(1)**

6 Calculate the US dollar price of a table in January and in December, and the percentage change. You are advised to show your working. **(3)**

7 Calculate the cost in rivs of a batch of glue in December. You are advised to show your working. **(2)**

8 Explain why the fall in the riv might cause inflation in Rivaland. **(3)**

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.

Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Exports from Rivaland

The fictional country of Rivaland uses the riv (R). Its main exports are furniture and tourism; its main imports are oil and wheat. In January, R1 = US$0.50. A Rivaland furniture maker sells tables for R800 each and imports wood glue costing US$2000 a batch.

By December the riv had fallen to R1 = US$0.40. Rivaland has a current account deficit of 4% of GDP.

Fictional case, written for this sheet.

9 With reference to the extract, analyse how the fall in the riv might affect Rivaland's current account. **(6)**

10 With reference to the extract, evaluate whether the fall in the riv will be good for Rivaland's economy. **(12)**

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.

IGCSE ECONOMICS · 2.2 THE GLOBAL ECONOMY · CHAPTER 42 · PAPER 2

Mark scheme: The Impact of Changing Exchange Rates

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *If US$1 = €1.2, the cost in euros to a German firm buying US$6 700 000 of US goods is: (1 mark)*

Answer: C (€8 040 000). 6 700 000 × 1.2.

2 *Which of the following will improve a country's international competitiveness? (1 mark)*

Answer: C (A depreciation of the exchange rate). Exports become cheaper.

3 *When a government fixes a new, higher exchange rate, the currency is: (1 mark)*

Answer: D (revalued). Government action, higher rate.

4 *A depreciation is most likely to improve the current account if demand for exports and imports is: (1 mark)*

Answer: B (price elastic). Quantities respond strongly.

Section B

5 *Define depreciation. (1 mark)*

A fall in the value of a currency owing to market forces (1).

6 *Calculate the US dollar price of a table in January and in December, and the percentage change. You are advised to show your working. (3 marks)*

January: 800 × 0.50 = US$400 (1).

December: 800 × 0.40 = US$320 (1).

Change: −20% (1).

7 *Calculate the cost in rivs of a batch of glue in December. You are advised to show your working. (2 marks)*

Working: 2000 ÷ 0.40 (1).

Answer: R5000 (was R4000) (1).

8 *Explain why the fall in the riv might cause inflation in Rivaland. (3 marks)*

Point: imports become dearer (1).

Development: oil and wheat are essential (1), so higher import prices raise firms' costs and the price level (cost-push) (1).

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.

Section C

9 *With reference to the extract, analyse how the fall in the riv might affect Rivaland's current account. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): depreciation makes exports cheaper and imports dearer.

Application (2): tables US$400 → US$320; tourism cheaper for foreigners; glue R4000 → R5000.

Analysis (2): exports of furniture and tourism rise; import spending in rivs may rise because oil and wheat are inelastic; overall deficit of 4% may narrow if exports respond strongly.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether the fall in the riv will be good for Rivaland's economy. (12 marks · levels)*

Good: exports (furniture, tourism, likely price elastic) more competitive; jobs and growth; current account may improve.

Bad: oil and wheat imports (inelastic) dearer, so inflation and lower living standards; imported inputs (glue) raise costs; deficit may not fall much.

Judgement: likely positive for exporters but costly for households; depends on price elasticities and how much inflation results.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.