

Many factors figure into determination of exchange rate

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The foreign exchange rate defines how much one country's currency is worth in terms of another country's currency. For example, the exchange rate between U.S. and Canadian dollars is about 1.2. That means that one U.S. dollar can be exchanged for \$1.20 in Canadian currency. Conversely, one Canadian dollar is worth about 83 cents in the U.S.

Exchange rates are fairly simple to calculate. However, understanding what determines the exchange rate is much more complex. Factors include the relative strength of the economies of each country, the balance of trade between them,

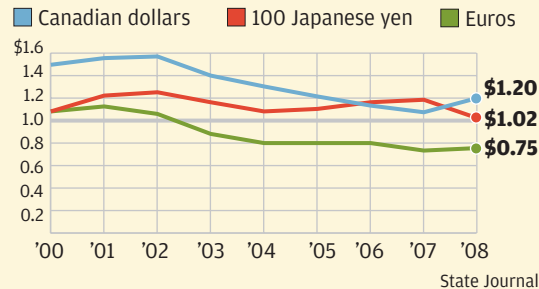
The economy
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and the relative interest rates and rates of inflation in each country.

Exchange rates also are affected by the demand for stocks and bonds and the volatility and perceived safety of the equity and debt markets in each country.

The recent lack of liquidity in financial markets and currency speculation have pushed the relative value of the U.S. dollar higher. That will help make foreign goods less expensive to import, U.S. goods more costly to export, reduce the value of foreign stocks for U.S. investors, and lower the cost of a Canadian fishing trip while increasing the cost for foreign visitors to the U.S.

Foreign currency needed to equal a U.S. dollar



SOURCE: <http://www.federalreserve.gov/releases/h10/hist/>