

## Handout 7-8-1 Exchange Rates: Importer

As a buyer of imported goods for a department store chain, you would like to get your purchases from abroad as cheaply as possible. However, you must pay the sellers in the currency of their own country. The values of currencies can change rapidly as import and export demands change, and as governments intervene to try to control the values of their currencies.

Consider three alternative sets of hypothetical exchange rates:

Case 1: \$1 = 200 Japanese yen (Y) = .67 British pounds£ = 2 West German Marks (DM)

Case 2: \$1 = 150 Y = .50£ = 1.5 DM

Case 3: \$1 = 300 Y = 1.00£ = 3.0 DM

By filling in the table below, you will discover the effect of changes in exchange rates on the price you must pay for your imports. To get the correct answer, divide the foreign price by the country's exchange rate. The answer will equal the price in dollars.

Product	Price in foreign currency	Price in dollars:		
		Case 1	Case 2	Case 3
Video cassette recorder	60,000Y			
Wool coat	40£			
Cuckoo clock	200DM			

Compare your table with those of others in your group to make sure you have computed the prices correctly. Then, as a group, determine the answers to the following questions:

- In which case were your costs as an importer lowest? The highest?
- In which case would you probably import the most foreign goods?
- A "strong dollar" is one that can be exchanged for a relatively large amount of foreign currency. As an importer, would you prefer a strong dollar or a weak dollar?
- In which case would your store most likely offer its products at the lowest prices?