Monetary Policy Scenarios

Overview

Students will read a number of fictional scenarios and determine the effect of those scenarios on foreign exchange rates.

Length

One class period

Materials

- Understanding Currencies and Exchange Rates (World101)
- What Is a Central Bank and What Does It Do for You? (World101)
- Worksheet and Answer Key (below)

Instructional Plan

1. Have students fill out the worksheet below.
2. Review their answers together.

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Worksheet

Scenario	Currency appreciates or depreciates?	Why?
Country A has a lot of young, well-educated workers as well as a number of entrepreneurs who are starting new companies. The country is relatively stable politically.		
Country B suffers from brain drain: most of its best-educated citizens migrate to other countries, leaving Country B's education rate relatively low. Country B has suffered from political instability and public corruption.		
Country C has announced a new program to attract foreign investment by helping to promote businesses to investors and relaxing regulations.		

Country D's economy is largely based on exporting natural gas. Recently, due to a number of countries closing coal-burning power plants and replacing them with natural gas-burning plants, demand for natural gas has increased significantly.		
Country E's economy is largely based on producing and exporting palm oil. However, due to global concerns about the environmental harm caused by the industry, a number of major buyers are reformulating their products to use other kinds of fats, drastically lowering the demand for palm oil.		
Country F is undergoing a financial crisis and the government has decided to try to get out of it by increasing the money supply, causing significant inflation in the country.		

Country G has recently flooded the foreign exchange market with its currency in an attempt to influence the market.		

Answer Key

Scenario	Currency appreciates or depreciates?	Why?
Country A has a lot of young, well-educated workers as well as a number of entrepreneurs who are starting new companies. The country is relatively stable politically.	Appreciates	Country A is attractive to investors and so the demand for its currency will increase.
Country B suffers from brain drain: most of its best-educated citizens migrate to other countries, leaving Country B's education rate relatively low. Country B has suffered from political instability and public corruption.	Depreciates	Country B is unattractive to investors and so the demand for its currency will decrease.
Country C has announced a new program to attract foreign investment by helping to promote businesses to investors and relaxing regulations.	Appreciates	If Country C is successful at increasing foreign investment, the demand for its currency will increase.

Country D's economy is largely based on exporting natural gas. Recently, due to a number of countries closing coal-burning power plants and replacing them with natural gas-burning plants, demand for natural gas has increased significantly.	Appreciates	When the demand for natural gas goes up, so does its price. Buyers will need more of Country D's currency to make their purchases, increasing the demand for the currency.
Country E's economy is largely based on producing and exporting palm oil. However, due to global concerns about the environmental harm caused by the industry, a number of major buyers are reformulating their products to use other kinds of fats, drastically lowering the demand for palm oil.	Appreciates	When the demand for palm oil goes down, so does its price. Buyers will need less of Country E's currency to make their purchases, decreasing the demand for the currency.
Country F is undergoing a financial crisis and the government has decided to try to get out of it by increasing the money supply, causing significant inflation in the country.	Depreciates	High inflation decreases demand for investment and leads citizens to try to exchange their savings for other currencies, reducing demand and increasing supply.

Country G has recently flooded the foreign exchange market with its currency in an attempt to influence the market.	Depreciates	Flooding the market with a currency increases its supply (decreasing demand).