

How Do Exchange Rates Work?

Reference: PACE, Unit 4 - Global Markets Activity

Materials Needed:

- * Current foreign currency rate chart from the Federal Reserve or Wall Street Journal
- * Product advertisements from magazines
- * Envelopes
- * Note cards
- * Markers
- * Calculators
- * Play money (optional)

How to Play:

Divide class into teams of 2 or 3 persons. Give each an envelope with play money and blank checks inside (recommend five \$100 bills in cash and 4 checks for a \$40,000 bank account). Each team should have a calculator, tally sheet and pencil. Each team will have a country of origin written on the right corner of the envelope. Each team should check the US exchange rate and write it on their envelope also.

The purpose is to play the role of a foreign purchasing agent buying in another country who is to buy the products priced in foreign currency rates using American dollars. After all purchasing is completed we will compare the money spent by each group in terms of US dollars. The magazine pictures will carry the prices in foreign currency of each of the countries in the game (Pre-assigned with a marker by the instructor). Remember to clearly price these items as a single item or as multiples in the foreign currency using prices that will work with the money in the envelope.

Each team is to visit the various stores (Clothing, grocery, automobile) and purchase items by listing them on their tally sheet. The items are listed in foreign currency rates as identified on the advertisements. Once the item (or group of items based on the instructor's pricing information) has been purchased it is removed from the store by the team so that others cannot also buy it.

The teams are to spend as much of their money as possible but not over the amount of money given them. When the purchase list is complete, it is turned in to the bank (instructor) and change will be made. The group with the least amount of US change is the top purchaser in foreign currency.

At some time during the activity, each group must purchase an automobile and write a check for it in the foreign currency of the team's country of origin as stated on the envelope. Thus a car listed in French francs must be converted to German marks if the purchaser from Germany wants a French car.

During the play of the game, country names will be drawn from a jar and the rate will become "strong" or "weak" versus the US dollar. You may purchase any car you choose, however the timing of the purchase could be crucial. Once you have purchased your car your team shouts "How much does it cost?" and the price is locked in at that time.

The game is over when all teams have used as much money as they can and purchased a car. Each team completes the tally sheet for their purchases with US and foreign currency rates identified for their purchases and a check is written for their automobile.

Questions for Discussion:

1. Define in simple terms what the exchange rate is.
2. What effect can exchange rate fluctuations have on your business?
3. Can we control rate fluctuations?
4. According to the information presented, how could we control the fluctuations?
5. Discuss how the number of people who want to purchase an item can change the rate of exchange.

