

Exchange Rates

Costas Arkolakis
teaching assistant: Yijia Lu

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Introduction: Exchange Rates

- **Exchange Rate is the price of some foreign currency in terms of a home currency**
 - Example 1: units of home currency for one unit of foreign (e.g. \$1.34 per Euro)
 - Example 2: units of foreign currency for one unit of home (e.g. €0.7425 per dollar)

Major Currency Cross Rates *As of 6pm on June 24, 2007*

Currency	U.S. \$	¥en	Euro	Can \$	U.K. £	AU \$	Sw. Fr.
1 U.S. \$	= 1	123.72	0.7425	1.0688	0.5004	1.1806	1.2298
1 ¥en	= 0.0081	1	0.006	0.0086	0.004	0.0095	0.0099
1 Euro	= 1.3467	166.61	1	1.4394	0.6739	1.59	1.6562
1 Can \$	= 0.9356	115.75	0.6947	1	0.4682	1.1046	1.1506
1 U.K. £	= 1.9985	247.25	1.484	2.136	1	2.3596	2.4577
1 AU \$	= 0.847	104.79	0.6289	0.9053	0.4238	1	1.0416
1 Swiss Fr.	= 0.8132	100.6	0.6038	0.8691	0.4069	0.9601	1

Definitions: Nominal Exchange Rate

- $E_{\$/\text{€}} = 1.3467$ = US exchange rate (in US terms)
- $E_{\text{€}/\$} = 0.7425$ = Euro exchange rate (in European terms)

- Thus,

$$E_{\$/\text{€}} = \frac{1}{E_{\text{€}/\$}}$$

- If a currency can buy more (less) of another currency we say it has appreciated (depreciated)
 - $\uparrow E_{\$/\text{€}}$ or $E_{\text{€}/\$} \downarrow$: dollar depreciation, euro appreciation