Chapter 39	McConnell, Brue and Flynn 20th

The Balance of Payments, Exchange Rates, and Trade Deficits

If you take a U.S. dollar to the bank and ask to exchange it for U.S. currency, you will get a puzzled look. If you persist, you may get a dollar's worth of change: One U.S. dollar can buy exactly one U.S. dollar. But on April 21, 2013, for example, 1 U.S. dollar could buy 1,837 Colombian pesos, 0.97 Australian dollar, 0.66 British pound, 1.03 Canadian dollars, 0.77 European euro, 99.55 Japanese yen, or 12.29 Mexican pesos. What explains this seemingly haphazard array of exchange rates?

In Chapter 38 we examined comparative advantage as the underlying economic basis of world trade and discussed the effects of barriers. In Chapter 38 we examined comparative advantage as the underlying economic basis of world trade and discussed the effects of barriers to free trade. Now we introduce the highly important monetary and financial aspects of international trade. This last chapter completes the unit of the Open Economy on the AP Macroeconomics Course Outline. The topics of balance of payments and exchange rates are frequently tested on the AP Macro Exam.