

## **MGMT 673 – Global Economic Analysis**

### **Assignment 3: Foreign Exchange**

#### **Due Date**

This assignment is due at the end of Module 6.

#### **Objective**

Foreign exchange rates are determined by supply and demand in the global currency markets. The objective of this assignment is to provide insight into the daily workings of the exchange markets and develop a deeper appreciation for the forces that drive supply and demand. You will choose a foreign currency and show how the theory explains recent trends in the exchange rate.

#### **Directions**

Search for articles published within the last 60 days on foreign exchange markets in the Wall Street Journal, the Financial Times and The Economist. Choose a currency of interest that's been making the financial news. Do not select a currency with fixed exchange rates such as the Chinese yuan that doesn't respond to market forces. Describe the economic conditions for the chosen country that influence exchange rates. Illustrate the recent (one year or less) changes in exchange rates to the US dollar in text and graphically. Then, summarize the developments and market forces reported in the articles that are seen as driving the recent appreciation or depreciation of the currency. Ensure your summary is a synthesis of the articles and not just a series of excerpts from your research (Do not summarize each article individually).

Suitable charts of exchange rates are available from many online sources including Google Finance, Yahoo Finance, and FOREX.com among many others. Once again, however, the best source may be the Federal Reserve Bank of St. Louis FRED dataset. Follow this path in FRED: Categories/Money, Banking, & Finance/Exchange Rates. Use care in interpreting the currency being priced, for example, do you have \$/€ or €/\$. Dollars per foreign currency is best, but the ratios are reciprocals, so either will work.

Next, apply the theory of supply and demand to further assess the recent trends employing the major factors Marthinsen discusses in Chapter 15 under the section titled "What Causes Exchange Rates to Change?" Not all factors will be applicable and the theory may occasionally seem in conflict with the current market movements. Your task is to reconcile the theory with the market. You may find this currency traders' rule of thumb helpful in your thinking: The local currency appreciates when funds flow into a country.

Your paper should be in APA format including title page, running head, page numbers, appropriate headings, citation of sources, a reference listing, and any appendices. Use an APA

style guide such as the Purdue Online Writing Lab. The paper should not exceed four pages not including a title page and reference list and any appendices you may wish to add.

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