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Answers

Exam-style questions

Questions on exchange rates

David Horner

This resource provides answers to the questions posed in the Exam-Style Questions column, in the February 2026 issue of ECONOMIC REVIEW.

Question 1

Using Table 1, calculate the percentage change in the \$/£ exchange rate between 2015 and 2014 to one decimal place. (2 marks)

Answer

$(\$1.53 - \$1.28)/\$1.53 \times 100 = 16.4\%$ fall

Question 2

Using Table 1, to what extent do the data show that the exchange rate helps determine the amount of exports the UK can sell to other countries?. (4 marks)

Answer

- Lower exchange rate makes exports cheaper in foreign currency prices.
- Lower exchange rate makes imports more expensive in domestic currency prices.
- We would expect a fall in the exchange rate to increase the value of exports and reduce the value of imports.
- Demand for exports may not be especially price elastic, so change in value of exports may not respond much to a change in the exchange rate.
- Over period, the pound has fallen by 16.4%.
- Over period, exports have risen (in value) by 63.7%.
- Exports increased every year apart from 2020.
- Exchange rate rose in 3 years on table and fell or was stable in other years.
- Probable link there but other factors (such as quality of goods, economic growth in other countries and shocks, e.g. Covid-19) are likely to affect value.

Question 3

With the help of a diagram, show how a fall in the pound's value affects the UK's macroeconomic performance. (9 marks)

Answer

- Definitions of exchange rate, macroeconomic performance.
- Diagrams: AD/AS diagrams with either:
 - Increased AD due to boost to exports.
 - Decreased SARS due to import prices increase.
- New equilibrium with increased real national output
- New equilibrium with increased price level
- Impact depends on initial position of macroeconomic equilibrium and type of AS curve selected
- Likely effects on other aspects of economic performance include reduced unemployment in export industries, improved current account balance.

Question 4

Evaluate the extent to which the UK economy benefits from a lower value for its exchange rate. (25 marks)

Answer

Possible issues to include:

- Definitions of exchange rate/exchange rate system.
- Lower currency value increases demand for country's exports.
- Should boost national output and potential positive multiplier effects on output.
- Increased living standards especially for those employed in industries affected and those industries supporting export sector.
- Reduced cyclical unemployment due to increased demand for workers in export industries.
- Increased cost-push inflationary pressure.
- Improved current account balance.

Issues for evaluation:

- Depends on amount of spare capacity.
- Depends on how long the lower value of currency persist.
- It impacts more on a country more open to foreign trade.
- The extent to which it has fallen will make a difference.

- There are gains in some measures of performance and losses in other measures.
- A country that relies on imports will be affected more negatively.