

## LESSON PLAN: THE FALL OF THE DOLLAR

**HANDOUT: A Weak Dollar: Good or Bad?**

**Name:** \_\_\_\_\_

### Teacher Key

1. Identify (define and explain the significance of) the following terms.

Currency – *paper money a government issues, value is determined in international market*

Exchange rate – *price of one currency in terms of another (e.g. the number of Euros one can get for a Dollar)*

Budget deficit – *difference between the amount the government spends and the amount it collects in taxes; gets added to the debt*

Trade deficit – *the difference between what a nation exports and what it imports; and ongoing trade deficit can weaken a nation's currency*

Inflation – *rise in overall level of prices; may result from a weak dollar foreign goods become more expensive*

2. Whom does a weak dollar hurt? Whom does it help? List below.

WINNERS:

*European and Japanese tourists in the U.S.*

LOSERS:

*American tourists in Europe / Japan*

*U.S. manufacturers that export*

*American consumers of foreign goods*

*American workers employed by companies that compete with foreign markets*

*countries that export to the U.S.*

3. How are currency rates determined? What does it mean to say the dollar is weak or strong?

*supply and demand (of dollars relative to other currencies); a weak dollar may be exchanged for less units of foreign currencies than previously*

4. How many other causes of a drop in the dollar can you find other than simply consumer preferences?

*trade deficits*

*investor worries about U.S. governmental policies*

*nations such as China and Japan that work to keep their currencies cheap so that they can export to the U.S.*

*low interest rates -- unattractive to investors*

*whether or not foreigners who get dollars for their goods and services want to invest in U.S. properties or sell their dollars thereby flooding the market and devaluing the dollar*

5. How can the government maintain the value of the dollar?

*raise interest rates*

*cut the deficit*

*intervene in currency markets*

6. What are the possible results of a weak dollar?

*inflation -- as foreign goods become more expensive*

*pressures to raise interest rates*

7. What do you think? Is a weak dollar a necessary market adjustment which will ultimately help our economic recovery and help find a sustainable level for the dollar? Or, is a drop in the dollar an economic disaster to which the Bush administration should respond? Support your view.

*Answers will vary.*