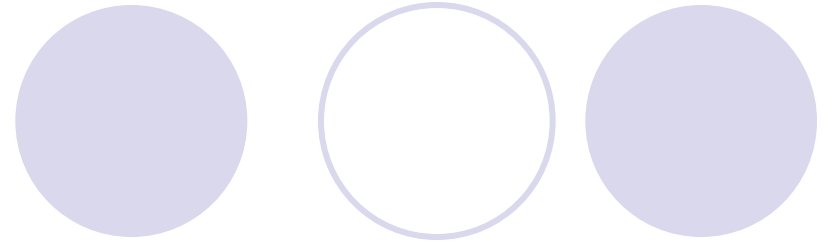


AUD    ARS    ALL    BRL  
      BGN    BOB    COP  
CNY    CZK    EUR    EGP  
      DKK            HKD            INR  
HUF    JPY    VEB    USD  
      CHF    RUB    PLN    GBP            HRK  
MKD    XAU

# WHAT FITS HERE?



- domestic ~
- stable ~
- foreign ~
- weak ~
- hard ~
- convertible ~
- common ~
- national ~



- (ex)change ~
- convert ~ (to)
- buy/sell ~
- devalue/revalue ~
- peg/fix ~ (to)
- ~ rises/falls
- ~ floats
- ~ fluctuates

# one word fit all: CURRENCY (n.)

## Adjective + currency

- domestic ~
- stable ~
- foreign ~
- weak ~
- hard ~
- convertible ~
- common ~
- national ~

## Verb (vt\*) + currency (object)

- (ex)change ~
- convert ~ (to)
- buy/sell ~
- devalue/revalue ~
- peg/fix ~ (to)

## currency + verb (vi\*\*)

- ~ rises/falls
- ~ floats
- ~ fluctuates

\*transitive – followed by a direct object

\*\*intransitive – no dir. object

# Currencies

- the US dollar (USD / US\$)
- the euro (EUR / €)
- the yen (JPY / ¥)
- the British pound (GBP / £)
- the kuna (HRK)

**the euro but 10.000 euros**

*The dollar has slipped **by** around 3% **against** **the yen** and **the euro** since November.*

---

*Their house is now worth 250.000 **euros**.*

---

*For deposits in amount over USD 10.000,  
EUR 10.000 or PLN 50.000*

# Introduction



- a country's relative level of economic health. / Aside from factors / is one of the most important determinants of / such as interest rates and inflation, / the exchange rate
- Aside from factors such as interest rates Aside from factors such as interest rates and inflation Aside from factors such as interest rates and inflation, the exchange rate is one of the most important determinants of a country's relative level of

# Intro. continued

The slide features a decorative header with the text 'Intro. continued'. Above the text are two pairs of circles. Each pair consists of a solid light purple circle and an outlined light purple circle. The first pair is positioned to the left of the text, and the second pair is to the right.

- which is critical to / play a vital role in / almost every free market economy / a country's level of trade / Exchange rates / in the world.
- Exchange rates play a vital role in a country's level of trade, which is critical to almost every free market economy in the world.

- Exchange rate movements affect a nation's trading relationships with other nations:
- makes / A higher currency / a country's exports / cheaper / more expensive and / imports / in foreign markets.
- A higher\* currency makes a country's exports a higher\* currency makes a country's exports more expensive and imports cheaper in foreign markets.
  - \* currency appreciates
- *When the exporter's currency appreciates, exports are becoming less / more profitable for the exporters and less / more expensive for the importers.*

- Exchange rate movements affect a nation's trading relationships with other nations:
- makes / A higher currency / a country's exports / cheaper / more expensive and / imports / in foreign markets.
- A higher\* currency makes a country's exports more expensive and imports cheaper in foreign markets.  
\* it appreciates
- *When the exporter's currency appreciates, exports are becoming less profitable for the exporters and more expensive for the importers.*



- A lower currency / a country's / makes / exports / and imports / cheaper / more expensive / in foreign markets.
- A lower\* currency makes a country's exports cheaper and its imports more expensive in foreign markets.
  - \* currency depreciates
- *When the exporters' **currency depreciates**, exports become \_\_\_\_\_ in the destination market.*

- A lower currency / a country's / makes / exports / and imports / cheaper / more expensive / in foreign markets.
- A lower\* currency makes a country's exports cheaper and its imports more expensive in foreign markets.
  - \* currency depreciates
- *When the exporters' **currency depreciates**, exports become cheaper in the destination market.*



# Exchange rates

MK, U 26

# Exchange rate is... (note: prepositions)

- the amount of one currency that can be bought **with** another
  - The exchange rate is 7.4 kunas **to** the euro.
  - The exchange rate is 5.48 kunas **to** the USD.
- the price **at** which one currency can be bought
- a rate **at** which one currency can be exchanged **into / for** another currency.
- value one currency **in** terms **of** other
  - € 1 = HRK 7.4
  - the conversion rate of every € to HRK

- Why do companies, institutions and people buy currencies?
- How is the value (the exchange rate) of the money in your pocket determined?
- Has the value HRK increased or decreased in the past few months?
- Has it increased or decreased since the summer? Why?
- Is the exchange rate of HRK fixed?
- What do we call this type of exchange rate?
- FLOATING
- Is it freely floating?

# Which of the three rates are described below? **FIXED, MANAGED FLOATING or FLOATING E.R.?**

1. a rate which is set by the govt. (central bank) only.....
2. a rate which is determined by the private market through supply and demand .....
3. its value will decrease only if demand is low (and vice-versa) .....
4. it does not change before it is centrally decided .....
5. if the rate changes more than the central bank allows, the bank intervenes (buys or sells the currency) .....
6. based on the free market only.....
7. its value will rise only if demand is high .....
8. a combination of the other two types .....
9. example of intervention in the economy .....

## Which of the three rates are described below?

**FIXED, MANAGED FLOATING or FLOATING E.R.?**

1. a rate which is set by the govt. only **FIXED E.R.**
2. a rate which is determined by the private market through supply and demand **FLOATING E.R.**
3. its value will decrease only if demand is low (and vice-versa) **FLOATING E.R.**
4. it does not change before it is centrally decided **FIXED**
5. if the rate changes more than the central bank allows, the bank intervenes (buys or sells the currency) **MANAGED FLOATING E.R.**
6. based on the free market only **FLOATING**
7. its value will rise only if demand is high **FLOATING**
8. a combination of the other two types **MANAGED FLOAT.**
9. example of intervention in the economy **FIXED E.R.,  
MANAGED FLOATING E.R.**

Read **EXCHANGE RATES**, pg. 1

MK, U 26, p 128 and **match with a heading**

- The Bretton-Woods Agreement of 1944 established \_\_\_\_\_ exchange rates, defined in terms of \_\_\_\_\_ and the US dollar. Between 1944 and 1971 many currencies were \_\_\_\_\_ the US dollar, i.e. their parities with the US dollar were fixed. One US dollar was a promissory note issued by the US Treasury and could be exchanged for 1/35th of an \_\_\_\_\_ of gold. Under this system, fixed exchange rates could only be adjusted (revalued or \_\_\_\_\_) with the agreement of the \_\_\_\_\_.



# EXCHANGE RATES, pg. 1

MK, p 128 – HEADING: **Gold convertibility**

- The Bretton-Woods Agreement of 1944 established *fixed* exchange rates, defined in terms of *gold* and the US dollar. Between 1944 and 1971 many currencies were *pegged against* the US dollar, i.e. their parities with the US dollar were fixed. One US dollar was a promissory note issued by the US Treasury and could be exchanged for 1/35th of an *ounce* of gold. Under this system, fixed exchange rates could only be adjusted (revalued or *devalued* )with the agreement of the *International Monetary Fund*.

- The Bretton-Woods system of gold \_\_\_\_\_ and pegging \_\_\_\_\_ the dollar was abandoned in 1971, because following inflation, the Federal Reserve did not have enough gold to \_\_\_\_\_ its currency.

Say which: **devaluated or revaluated**

- An overvalued currency had to be \_\_\_\_\_.
- An undervalued currency had to be \_\_\_\_\_.
- Currencies could only be adjusted with the agreement of the \_\_\_\_\_.

- The Bretton-Woods system of gold *convertibility* and *pegging* against the dollar was abandoned in 1971, because following inflation, the Federal Reserve did not have enough gold to *guarantee* its currency.

Say which: *devaluated* or *revaluated*

- An overvalued currency had to be *devaluated*.
- An undervalued currency had to be *revaluated*.
- Currencies could only be adjusted with the agreement of the *IMF*.

# Please, read pg. 2 & match with a heading

- Most western countries have had \_\_\_\_\_ exchange rates ever since 1971. This means that exchange rates are determined by the market \_\_\_\_\_ - the quantities \_\_\_\_\_ and \_\_\_\_\_. If demand exceeds supply, the price will \_\_\_\_\_; if supply exceeds demand, the price of a currency will \_\_\_\_\_. Milton Friedman, for example, was a \_\_\_\_\_ of freely floating exchange rates. He \_\_\_\_\_ that currencies would automatically settle at stable rates which would \_\_\_\_\_ underlying economic \_\_\_\_\_. However, proponents of freely floating exchange rates \_\_\_\_\_ the impact of speculation.

## Pg. 2 – heading: Market forces

- Most western countries have had *floating* exchange rates ever since 1971. This means that exchange rates are determined by the market *forces* - the quantities *bought* and *sold*. If demand exceeds supply, the price will *rise*; if supply exceeds demand, the price of a currency will *fall*. Milton Friedman, for example, was a *proponent* of freely floating exchange rates. He *argued* that currencies would automatically settle at stable rates which would *reflect* underlying economic *conditions*. However, proponents of freely floating exchange rates *underestimated* the impact of speculation.

# Read pg. 3 & match with a heading

- PPP stands for \_\_\_\_\_ .  
Purchasing power – the ability to buy things  
Parity – the state of being the same or equal  
If HRK and GBP have PPP, an amount of HRK needed to buy particular goods in Croatia will buy \_\_\_\_\_ amount of goods in the United Kingdom when exchanged into GBP.
- If floating exchange rates gave PPP, the cost of a given selection of goods would be the same in different countries.
- Floating exchange rates do not give PPP because of currency \_\_\_\_\_ .
- As much as \_\_\_\_\_ % of world's currency transactions are purely speculative.

## Pg. 3 – heading: Parity and speculation

- PPP stands for *purchasing power parity*.

Purchasing power – the ability to buy things

Parity – the state of being the same or equal

If HRK and GBP have PPP, an amount of HRK needed to buy particular goods in Croatia will buy *the same* amount of goods in the United Kingdom when exchanged into GBP.

- If floating exchange rates gave PPP, the cost of a given selection of goods would be the same in different countries.
- Floating exchange rates do not give PPP because of currency *speculations*.
- As much as *95%* of world's currency transactions are purely speculative.

Please, read pgs. 4 & 5

match with headings

Match to create collocations used in pgs. 4&5

- intervene                      currency reserves
- hedge                            contracts
- raw                                planning
- futures                          markets
- forward                         of the Euro
- export                          against currency fluctuations
- establishment                 materials
- foreign                         in exchange markets



**Pg. 4 – Counteracting speculation**

**Pg. 5 – Market interventions**

Match to create collocations used in pgs. 4&5

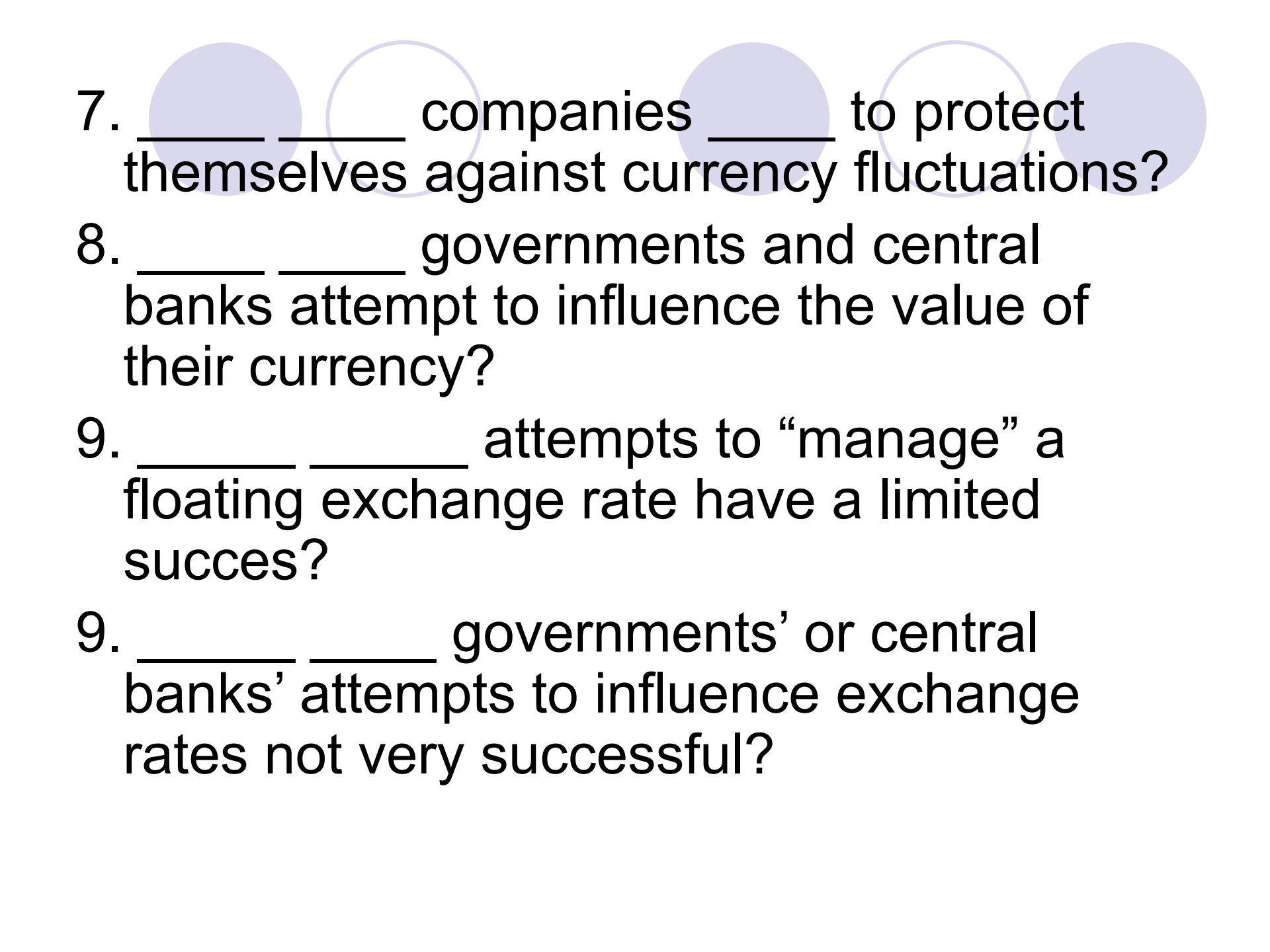
- intervene in exchange markets reserves
- Hedge against currency fluctuations
- raw materials
- futures contracts
- forward planning
- export markets
- establishment of the Euro
- foreign currency

# Comprehension: Write questions

1. \_\_\_\_\_ gold convertibility?
2. \_\_\_\_\_ the Federal Reserve end the system of gold convertibility in 1971? OR  
\_\_\_\_\_ gold convertibility end in 1971?
3. \_\_\_\_\_ a floating exchange rate determined?
4. \_\_\_\_\_ happen if there was PPP? OR  
\_\_\_\_\_ happen if currencies were correctly valued?
5. \_\_\_\_\_ speculators buy foreign currencies?
6. \_\_\_\_\_ of world currency transactions \_\_\_\_\_ purely speculative?

# Comprehension: Write questions

1. What was gold convertibility?
2. Why did the Federal Reserve end the system of gold convertibility in 1971? OR  
Why did gold convertibility end in 1971?
3. How is a floating exchange rate determined?
4. What would happen if there was PPP?  
What would happen if currencies were correctly valued?
5. Why do speculators buy foreign currencies?
6. What proportion of world currency transactions are purely speculative?

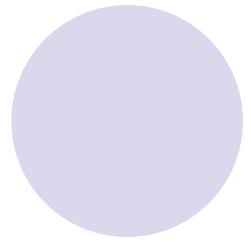
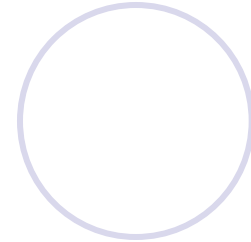
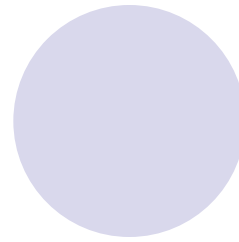
- 
7. \_\_\_\_\_ companies \_\_\_\_\_ to protect themselves against currency fluctuations?
  8. \_\_\_\_\_ governments and central banks attempt to influence the value of their currency?
  9. \_\_\_\_\_ attempts to “manage” a floating exchange rate have a limited success?
  9. \_\_\_\_\_ governments’ or central banks’ attempts to influence exchange rates not very successful?

7. How can companies try to protect themselves against currency fluctuations?
8. How can governments and central banks attempt to influence the value of their currency?
9. Why do attempts to “manage” a floating exchange rate have a limited success? OR Why are governments’ or central banks’ attempts to influence exchange rates not very successful?

Vocabulary, p 129

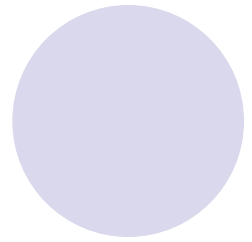
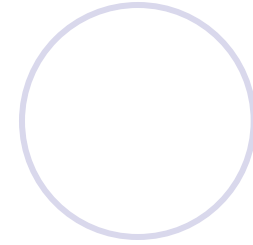
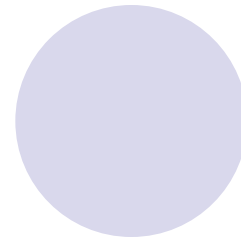
## Vocabulary, p 129

- 1 revalue
- 2 devalue
- 3 floating
- 4 proponents
- 5 depreciate
- 6 appreciate
- 7 hedge
- 8 fluctuations
- 9 futures contracts



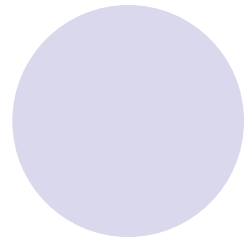
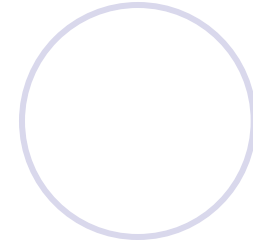
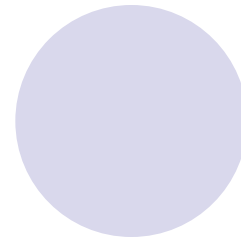
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# Vocabulary, p 129

- 1 reevaluate
- 2 devalue
- 3 floating
- 4 proponents
- 5 depreciate
- 6 appreciate
- 7 hedge
- 8 fluctuations
- 9 futures contracts





# Listening 1:

## Currency flows and the Tobin Tax

1. “Hot money” is s\_\_\_\_\_ money that is invested in a c\_\_\_\_\_ for a very short time, which means that it is f\_\_\_\_\_ in and out of a country very q\_\_\_\_\_.
2. I\_\_\_\_\_ u\_\_\_\_\_ and falling o\_\_\_\_\_.
3. Tobin Tax is a very s\_\_\_\_\_ t\_\_\_\_\_ on currency p\_\_\_\_\_ and currency s\_\_\_\_\_. It is d\_\_\_\_\_ to reduce c\_\_\_\_\_ s\_\_\_\_\_.

# Listening 1:

## Currency flows and the Tobin Tax

1. “Hot money” is speculative money that is invested in a currency for a very short time, which means that it is flowing in and out of a country very quickly.
2. Increased unemployment and falling output.
3. Tobin Tax is a very small tax on currency purchase and currency selling. It is designed to reduce currency speculations.

# Listening 1:

## Currency flows and the Tobin Tax – cont.

4. “Highly liquid” currency trading is buying or selling currency with base money.
5. It would probably reduce or “dampen down” cross trading and cross flow.
6. Globalization makes global capital possible.

# Listening 1:

## Currency flows and the Tobin Tax – cont.

4. “Highly leveraged” currency trading is buying or selling currency with borrowed money.
5. It would probably reduce or “dampen down” currency trading and currency fluctuations.
6. ICT makes global coordination possible.

ICT is i \_\_\_\_\_ and c \_\_\_\_\_ t \_\_\_\_\_.

# Listening 1:

## Currency flows and the Tobin Tax – cont.

4. “Highly leveraged” currency trading is buying or selling currency with borrowed money.
5. It would probably reduce or “dampen down” currency trading and currency fluctuations.
6. ICT makes global coordination possible.  
ICT is information and computer technology.

## Listening 2: Developing Africa

1. Because they won't get a s \_\_\_\_\_  
r \_\_\_\_\_ of return, or a p \_\_\_\_\_.
2. Africa would get a s \_\_\_\_\_ social rate  
of r \_\_\_\_\_: better education, better  
economic g \_\_\_\_\_, better standards of  
living, longer l \_\_\_\_\_ e \_\_\_\_\_.

## Listening 2: Developing Africa

1. Because they won't get a sufficient rate of return, or a profit.
2. Africa would get a significant social rate of return: better education, better economic growth, better standards of living, longer life expectancy.

1st Progress test, 18 April, 2011

12.00 - group 11\_1 13.00 - group 11\_2

- **Topics covered:** → **Reader, p 1: all but Graph Description & Finance**
  - ***Meetings (R)***
  - ***Report writing (R)***
  - ***Marketing***
    - Products (R + MK 11)
    - Marketing (R + MK 12)
    - Advertising (R + MK 13)
  - ***Trade***
    - Retail and Wholesale, visible - invisible (R)
    - International trade, barriers to free trade (R + MK27)
  - ***Banking***
    - Banking (R + MK 14)
    - Insurance (R)
    - Central banking (R)
    - Exchange rates (MK 26)





## Preparing for the written and oral exam

- **read** each relevant text
- **underline** unknown words/expressions
- find their **meaning** (dict., note-book, slides, web,...)
- make sure you **understand** all the text
- consider the various related texts and materials as elements contributing to your **general understanding of a certain topic**
- see which of the **words/expressions** in the texts were important for this topic (slides, notebook, **vocabulary sections** in MK and Reader)
- explain their meaning in **simple** English
- **retell the main message of each text orally**
- **be prepared to discuss various topics and present your personal views**
- **Think what ex. could be expected in the test**

## Types of exercises you can expect:

- Read the definition/explanation and provide the right term
- Supply the missing word to make strong word partnerships, or use the expression to answer a question or write about a (given) topic
- Find the odd one out & explain your answer
- Complete the text by filling in the missing words
- Fill in the missing prepositions
- Compare X and Y
- Discuss advantages and disadvantages of X
- Downtone the following sentences (Lang. of meetings - PE2)
- Translate (key terms) into or from Croatian
- Write questions to which sentences below could be the answers.
- **Write a one-page report – you can bet! – 20 points**