

DISCUSSION QUESTION

Name:

Instructor:

Course:

Compare a flexible exchange rate system to a fixed exchange rate system. Which system is found in the U.S.? What is a managed float?

PEER GROUP PROBLEM SOLVING

Name:

Instructor:

Course:

Imagine you are traveling to Germany and have an opportunity to buy a BMW for 50,000 euros. In the United States, the same car would cost you \$54,000. Which is the better deal, assuming you would need to convert dollars to euros in order to buy the car in Germany. Assume an exchange rate of \$1.1 to 1 euro.

IN-CLASS EXPERIMENT / ACTIVE EXERCISE

What is purchasing power parity? Research the 2015 Big Mac Index. What is it? According to the Index, in U.S. dollars, in which country is the price of a Big Mac the highest? The lowest?

SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

Compare a flexible exchange rate system to a fixed exchange rate system. Which system is found in the U.S.? What is a managed float?

Fixed exchange rate system: A country's currency exchange rate is fixed (pegged) to another country's currency or it is fixed against another measure of value such as gold by the government.

Flexible (also called floating) exchange rate system: A country's currency exchange rate is determined in international currency exchange markets.

Managed float (also called a dirty float): Where a government's central bank occasionally intervenes in the foreign exchange market to manipulate the value of a country's currency. This is usually due to some economic shock.

Peer Group Problem Solving

Imagine you are traveling to Germany and have an opportunity to buy a BMW for 50,000 euros. In the United States, the same car would cost you \$54,000. Which is the better deal, assuming you would need to convert dollars to euros in order to buy the car in Germany. Assume an exchange rate of \$1.1 to 1 euro.

\$54,000 is 49,090.91 euros thus the car sold in the U.S. for \$54,000 is the better deal.

In-Class Experiment / Active Exercise

What is purchasing power parity? Research the 2015 Big Mac Index. What is it? According to the Index, in U.S. dollars, in which country is the price of a Big Mac the highest? The lowest?

Purchasing power parity: Rate of exchange that allows a specific amount of currency in one country to purchase the same quantity of goods in another country.

Big Mac Index: Published by the Economist since 1986, it compares the price of a Big Mac in each country based on purchasing power parity.

May vary, but Switzerland is usually the highest and Ukraine the lowest.

For more in-class experiment and active learning ideas, visit www.econedactive.com