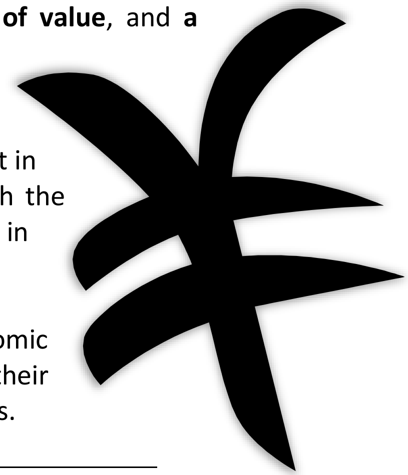
Everything ¥en



Money has several functions. It serves as a **medium of exchange**, **a store of value**, and **a measure of value**. In world trade, money functions as a medium of exchange used to carry out payments on international transactions.

The value of a currency, when used in international exchanges, is frequently set in **foreign exchange markets** where the forces of **supply and demand** establish the price at which different currencies are exchanged. **Foreign exchange rates** set in such a market are called floating exchange rates.

Decisions to buy or sell foreign currency are influenced by the same economic principles that affect all economic choices. In this lesson, you will apply their reasoning skills to explain changes in the exchange rate between two currencies.

Questions for Discussion *(wait until our classroom activity is over to answer these questions)*

1. How many total yen were paid on average for each of the US dollars in Round 1? In Round 2? In Round 3? In other words, what was the price of a US dollar in terms of yen in each round?

2. How wide were the price variations of yen per dollar in each round?

3. What determined the exchange rate of yen and dollars?

4. How does the pattern of exchange rates illustrate the interaction of supply and demand.

5. In general, how is the foreign exchange value of a currency set in terms of other currencies?

6. What factors might cause the exchange rate between two countries to change?

7. What are the three functions of money?

8. What determines the value of *any* currency?