Currency Markets & Capital Flows

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Trace a Rate Differential Change

Country A's rate rises from 2% to 4.5% while Country B's stays at 2%. What would you expect to happen to Country A's currency, all else equal? Why?

Section 2 - Calculate a Translation Impact

A company reports $500M total revenue, 40% from overseas. Its home currency strengthens 6%. Estimate the translation impact in dollars and as a percent of total revenue.

Section 3 - Consider a Trade Balance Shift

A country's trade surplus has been shrinking for three years straight. What might this suggest for its currency over that period, all else equal?

Section 4 - Identify Safe-Haven Demand

During a sudden global market sell-off, a currency from a country with lower interest rates strengthens anyway. What concept from this lesson explains that?

Section 5 - Reflection

In your own words, explain why a domestic-focused company is less exposed to currency swings than a heavily multinational one.