

GUIDED READING Activity 17-3

For use with textbook pages 481–485

FINANCING AND TRADE DEFICITS

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

flexible exchange rate	trade deficit	fixed exchange rate
foreign exchange rate	trade surplus	foreign exchange markets
	trade-weighted value of the dollar	

Introduction/Financing International Trade

Because each country has its own currency, trade between nations is made somewhat more complicated. Foreign currencies are bought and sold in **1** _____. This market includes banks that help secure foreign currencies for importers, as well as banks that accept foreign currencies from exporters. The

2 _____ is the price of one country's currency in terms of another country's currency. There are two types of exchange rates. Under a **3** _____ system, the price of one currency is fixed in terms of another so that the rate does not change. This system was used when the world was on the gold standard. Now, under the **4** _____, the forces of supply and demand establish the value of one country's currency in terms of another country's currency.

Trade Deficits and Surpluses

A country has a **5** _____ whenever the value of the products it imports exceeds the value of the products it exports. It has a **6** _____ whenever the value of its exports exceeds the value of its imports. Each is dependent on the international value of its currency. The Fed keeps a statistic that measures the international value. It is called the **7** _____, and it is an index that shows the strength of the dollar against a group of foreign currencies. When the index falls, the dollar is weak. When the index rises, the dollar is strong.

A persistent trade imbalance tends to reduce the value of a country's currency. The devalued currency can affect income and employment in that country's industries. A shift in employment between import and export industries is one of the biggest problems with a **8** _____. That shift can correct itself, as it did in the automobile industry. The **9** _____ encourages an automatic correction of trade deficits. A strong currency tends to cause a trade deficit; a weak currency tends to cause a **10** _____, which eventually pulls up the value of the currency.