

## 16.2: Introduction to the Foreign Exchange Market

What you'll learn to do: define currency exchange rates and explain how they influence trade



	BUY	SELL	CROSS RATES
USD	1.070	1.090	1 CAD =
AUD	0.915	0.950	1 CAD =
GBP	1.710	1.740	1 CAD =
EUR	1.565	1.590	1 CAD =
JPY	0.0118	0.0121	1 CAD =

balances

In the foreign exchange market, people and firms exchange one currency to purchase another currency. This market is influenced by both demand and supply:

- The demand for dollars comes from those U.S. export firms seeking to convert their earnings in foreign currency back into U.S. dollars; foreign tourists converting their earnings in a foreign currency back into U.S. dollars; and foreign investors seeking to make financial investments in the U.S. economy.
- On the supply side of the foreign exchange market for the trading of U.S. dollars are foreign firms that have sold imports in the U.S. economy and are seeking to convert their earnings back to their home currency; U.S. tourists abroad; and U.S. investors seeking to make financial investments in foreign economies.

A stronger currency benefits those who are buying with that currency and injures those who are selling. In this section, you'll learn about why this is.

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