For each of the following situations, indicate the direction of the shift in the supply curve or the demand curve for dollars, the factor causing the change, and the resulting movement of the equilibrium exchange rate for the dollar in terms of foreign currency:

a. *American-made cars become more popular overseas.* – There will be an increase in demand of US dollar to by American-made cars overseas. Therefore under other equal conditions increase of demand of dollar will cause its **appreciation.**
b. *The United States experiences a recession, while other nations enjoy economic growth*. – **Depreciation,** because US manufacturing is low, investors sell their bonds (they are afraid of government may default its debt), therefore dollar demand decrease that will cause **depreciation.**
c. *Inflation rates accelerate in the United States, while inflation rates remain constant in other nations*. – If inflation in the USA is relatively higher than else where, then US exports will be less competitive and there will be a decrease in demand of dollar to buy US goods. Also foreign goods will be more competitive so US citizens will buy more imports. Therefore the USA tends to see **depreciation** in value of dollar.
d. *Real interest rates in the United States rise, while real interest rates abroad remain constant*. – If US interests rates rise relatively to elsewhere, it will become more attractive to deposit money in the USA, because you will get a better rate of return from saving in US banks. Therefore demand of dollar will rise that will cause **appreciation of dollar.**
e. *The Japanese put quotas and high tariffs on all imports from the United State*s. – Import to Japanese becomes more expensive that will reduce demand for imports. Therefore dollar demand decrease that will cause **depreciation.**
f. *Tourism from the Unites States increases sharply because of a fare war among airlines*. – Demand for other currencies will increase relatively to dollar demand that will cause **depreciation** of US dollar.

Short explanation:

- *appreciation* – increase in value of exchange rate
- *depreciation / devaluation* – decrease in value of exchange rate