

Consumer Applications



Activity 22

BUYING FOREIGN GOODS

Two significant factors describe United States foreign trade. First, the United States is the world's number one trading nation. Second, since the mid-1970s the United States has imported more than it has exported. As a result, the nation's businesses lost sales, profits, and the ability to employ more people.

Protectionists support restrictions on foreign imports. The United States government, however, has generally followed the principle of free trade and has tried to influence other nations to open their markets to American goods. For example, the North American Free Trade Agreement (NAFTA) has increased trade with Canada and Mexico. However, before NAFTA we had trade surpluses with both countries. Today we have trade deficits. Striking a balance between protecting American businesses and allowing free trade is difficult.

Directions: Complete the following exercises using the information above to help you analyze the two sides of this issue.

1. Describe the arguments protectionists give to explain how the following policies would help American businesses compete with foreign companies.

a. Higher tariffs

b. Import quotas

c. Depreciating the dollar's value

2. Explain what free trade advocates mean when they oppose the protectionist viewpoint with the following arguments.

a. Protectionism means higher prices.

b. Protectionism weakens us by helping inefficient companies to stay in business.

c. Protectionism causes other countries to retaliate.

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WORKING WITH FOREIGN EXCHANGE RATES

To facilitate world trade, foreign exchange markets buy and sell foreign currency. This allows individuals and businesses to easily convert from one currency unit to another.

Below is a table of foreign exchange rates for a recent day. These rates change daily and are posted in large banks and major newspapers. The exchange rate is often given to four or five decimal places.

Country (currency unit)	Foreign Currency in Dollars	Dollar in Foreign Currency	Country (currency unit)	Foreign Currency in Dollars	Dollar in Foreign Currency
Argentina (peso)	1.00	1.00	Egypt (pound)	.29	3.44
Australia (dollar)	.65	1.53	Euro	1.07	.93
Britain (pound)	1.60	.62	Germany (mark)	.55	1.83
Belgium (franc)	.03	37.74	India (rupee)	0.02	43.39
Canada (dollar)	.66	1.50	Japan (yen)	0.008	115.20
Czech Rep. (koruna)	.03	33.88	Philippines (peso)	0.03	39.08
Chile (peso)	.002	512.15	Portugal (escudo)	0.005	187.34
China (renminbi)	.12	8.28	Saudi Arabia (riyal)	0.27	3.75

Does the table make sense to you? Look at the Euro. It is worth \$1.07 in U.S. currency, and one U.S. dollar will buy 0.93 Euros. Perhaps you have heard about the Euro, the single currency for all of Europe. It will replace many currencies, such as the Belgian franc and the German mark, early in the twenty-first century.

How much is each of the following worth in U.S. dollars?

(1) 1 Canadian dollar _____ 1 Indian rupee _____ 1 Philippine peso _____

How much is one U.S. dollar worth in each of these countries?

(2) Saudi Arabia _____ Germany _____ China _____

Suppose you travel to Portugal and exchange \$100 for escudos. How many will you get? (3) _____

When you leave, you exchange 100 escudos for dollars. How many will you get? (4) _____

Suppose you purchased each item below. Find the price in U.S. dollars.

(5) A sari in India for 700 rupees _____ (6) A painting in London for 1,250 pounds _____

(7) A belt in Chile for 1,250 pesos _____ (8) A shirt in Canada for 40 dollars _____

In which countries would a souvenir marked 1,000 in the local currency cost under \$10?

(9) _____