The experienced in the market (smith). this will

The recent crisis in Japan that is currently underway is a major blow to the Japanese economy as a whole and to its currency ratings in international foreign exchange market. At the moment the Tokyo yen exchange rates have already started plummeting by an alarming percentage just few days after the crisis (Langundo).

A recent report indicates that the Japanese stock market is the hardest hit financially in the aftermath of the imminent explosion of the nuclear power plant which has further compounded an already existing problem (Langundo). Japan recent crisis has caused an " economic shock" in the country, a situation which comes about when natural disaster like Tsunami hits a country; it is more likely that a further weakening of the Japanese currency against all currencies will be the outcome as the complete damage that the tsunami caused is completely assessed in the coming days. This weakening of the Japanese currency which is also known as devaluation of the currency will greatly affect the economy by creating instability in the exchange rates (Aggarwal). The Japanese yen has already appreciated against the US dollar and surplus of the currency may be reported in Japanese market in the coming days which means the Yen is weakening against US dollar which will now become stronger; the only good news is that importers will benefit because of this weakening of Japanese currency but on the other hand exporters will be greatly affected since it will mean there products will lose value. The strengthening of the dollar may be due to immediate measures being taken by various firms and companies such as dumping of shares and massive conversion of already held Japanese Yen's into dollars (Langundo). The devaluation of the yen literary means that, if the

Japanese yen is trading at 70 against the dollar, it is likely to appreciate to about 75 against the dollar which in economics terms implies depreciation or weakening of the yen. The nuclear crisis being experienced is also directly affecting the yen value since majority of investors with shares in this sector have already started dumping their shares.

The crisis is also likely to affect the import and export market. Indeed, the crisis has demolished many companies and even the nuclear plant which is one of the main sources of the electricity used in industries and domestic use. As a result, production in Japan will be affected and the country will be forced to do more importation compared to exportation until everything goes back to normal. Such an effect will also mean that exports will reduce due to decline in production which in turn means unbalanced trade that will eventually cause cash payment deficit to occur in the country (Aggarwal). Consequently, when exports have reduced, there will be an increase in demand for the foreign currency like US dollar. On the other hand, the demand for foreign currency will be followed by a further devaluation of the Japanese yen meaning that the yen will appreciate compared to the US dollar. Due to the devaluation of the local currency the trade of domestic goods and services should be expected to be cheaper compared to trade in foreign goods and services (Smith).

However, there are measures that can be put in place to ensure that yen makes a comeback to its original value once again. For instance the central bank of Japan can regulate the strength of foreign currencies by maintaining the current exchange rates through sale of its foreign reserve in order to balance the capital outflow being experienced in the market (Smith). This will cause a shrink in the money supply which will in turn increase the domestic interest rates thereby maintaining stability of the yen currency in the market the international market.

# Works cited

Aggarwal, M. “ Factors affecting the currency conversion rates” 2008. Web. 17 Mar.

2011.

“ Tokyo exchange falls sharply to 5 %.” 2011. Web.

16 Mar. 2011 < http://www. worldnewsco. com> Smith, O. “ Currency Exchange.” New Delhi: S. N publishers, 2007.