

# Influences affecting foreign exchange rate



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Foreign exchange rate describes the relative currency between two different countries. It also refers to the quantity of one country's currency needed to trade for a unit of another country's currency. For instance, one U. S dollar is equivalent to 98 Japanese yen. However, the exchange rate is not constant, meaning it changes and is subject to speculation. Furthermore, there are influences which affect the foreign exchange rate of a certain country (State Bank of India California, n. d. ). One of these influences is the interest rates. Interest rates refer to the percent charged for using the money.

When the money is borrowed, the interest rate is charged, whereas when the money is loaned, the interest rate is paid (Amadeo, 2009). In addition, interest rate determines the value of the country's currency. Interest rate can also determine the currency value, which, in turn, affects the country's exchange rate (State Bank of India California, n. d. ). Another influence is the unemployment rate since it is an indication of a country's economy. When a country has a high rate of unemployment, it means that the country has an unstable or poor economy.

It then reduces the currency value of the country, and as such the foreign exchange rate will change accordingly (State Bank of India California, n. d. ). World political events also affect the country's currency value and the conversion rate. Also, another influence is the increase in the supply of currency. When there is an increase in the supply of currency, the global currency value falls down. Thus, more of the global currency is required to be able to buy the currency of another country. This activity has a direct effect on the foreign exchange rate.

The increase in the supply of currency may stem from different reasons. It could be because of the growth in the foreign investment, which will then lead to an increase in the currency value. The reason can also be the excess currency issued by the Central Bank (State Bank of India California, n. d. )

References Amadeo, K. (2009). " Interest rate. " About. com. Retrieved April 3, 2009, from [http://useconomy. about. com/od/glossary/g/Interest\\_Rate. htm](http://useconomy.about.com/od/glossary/g/Interest_Rate.htm)

State Bank of India California. (n. d. ). Currency exchange rate. Retrieved April 3, 2009, from [http://www. sbical. com/currency-exchange-rate. asp](http://www.sbical.com/currency-exchange-rate.asp)