Depreciation of a currency

Discuss why it is often asserted that exporters suffer when their home currencies appreciate in real terms against foreign currencies and prosper when their home currencies depreciate in real terms. Lets us talk about the impact of exchange rate fluctuations on the exports and imports of a country. Exchange rate is simply the value of one currency in terms of another currency. In the international trade market, exchange rate plays a vital role for the demand of a product.

Let us see how. Lets us consider a scenario when a home currency say Aussie $ appreciates, what this means is that the price of Aussie $ has risen in the foreign exchange market. People willing to acquire Aussie $ to buy Aussie goods now have pay more of their home currency than they did before. This results in Aussie goods (imports) being more expensive in the foreign market. It is important to keep in mind that in this case Aussie goods have become expensive in the overseas market purely because of an appreciation of the Aussie $ and not because of a rise in the cost of production in Australia. As a result of higher price, there will be a fall in the demand for Aussie goods (imports) in the overseas market and this will eventually hurt the exporters, as they will face a fall in sales.

Let us now see what happens when Aussie $ depreciates, in this case depreciation will make Aussie $ relatively cheaper in the foreign exchange market i. e. people have to pay less of their home currency to buy Australian goods this makes Aussie goods (imports) being relatively cheap in the foreign market and will therefore result in higher demand for Aussie goods and rise in sales for the exporters. There can also be a scenario when an increased demand for a country’s goods, increases the demand for local currency which initially benefits the exports of the industry which is facing higher demand for their goods but in the long run as a result of higher demand in the 13. Australia has been negotiating a free trade agreement with China for several years.

If this agreement were to be approved this year, how would it likely affect the Australian dollar / euro real and nominal exchange rates in the long run?