How a weak currency effects exports vs. imports

[Literature](), [Russian Literature]()

Weak Currency Effect on Exports vs. Imports 30th, September Weak Currency Effect Exports vs. Imports While most investors concentrate much on the state of affairs, it is also essential to comprehend what is going on globally. From an economic outlook, currency valuations are decisive factors to consider in trading. Depending on a country, the relative value of the currency of Euro, Yen, or Dollar may fluctuate more than other currencies. In such instances, one may regard it as a strong or a weak currency. A strong currency is one that can be converted into high quantities of other currencies while a weak currency is one that cannot buy much from a different currency. A country is worse off when its expected future currency is perceived by speculators as becoming weak or falling in value. A weak currency makes the country’s imports more expensive but its exports cheaper, which contributes to the economic crisis if a country is import orientated or has immense debts. The long effect of a weak currency is that it augments the economic crisis and less spending because of high prices of goods. However, anything that one purchases from a foreign country when the currency is strong results in cheaper prices of goods. This research paper seeks to elaborate on the effects of a weak currency on exports vs. imports. According to Rajan and Palgrave Connect (2009), a weak currency boosts export growth by lowering relative prices and increasing the profitability of the manufacturing sector, thus escalating the domestic value obtained from tradable goods. A weaker currency motivates domestic production as exports increases, and this increases job opportunities. On the other hand, a strong currency declines the quantity of exports that a foreigner’s demand and in turn, reduces a nation’s export production. A weak currency affects the imported goods in that it makes it more expensive for a nation or people to purchase goods from another country. Oil has been an instance of this occurrence whereby, although Chevron and ExxonMobil recently posted huge profits, consumers felt it was the wrong timing and this contributed to financial crisis. A weak currency affects the trade deficit, which means that a nation imports much more that it exports. As argued by Bodie, Kane, and Marcus (2011), a low currency makes the imports more expensive but its exports cheaper, and as a result, a nation ends up importing more than it exports. For instance, a weak dollar would, in turn, decrease the huge trade imbalance of the U. S. When consumers rely on the imported goods, a weaker dollar would cause more harm than good to a nation. The following appendix explores more on trade deficit, a scenario where the U. S purchased more imports than exports and this has got worse since the 1970s. The weak currency made exports cheaper and this attracted many foreigners to purchase. Retrieved from http://images. mises. org/5928/Figure1. png A weaker currency would boost inflation, interest rates, and the cost of imported capital and, finally, goods. High interest rates limit economic growth as this makes borrowing expensive, which may limit businesses struggling with finances to ask for funds. As a consequence, this makes difficult for domestic firms to expand their business in foreign markets. In 2008, the U. S dollar made butter exports great as the product appealed cheaper to the world market. However, when the dollar strengthened at the end of 2008, the butter price became very expensive to the world market and imports surged (Karadeloglou & Terraza, 2008). A weak currency increases exports by making its goods cheaper in foreign countries. Nevertheless, the currency is good for nations that rely more largely on exports than imports, which tends to attract many to purchase their commodities. An example is Japan that relies more on its exports, and having a weak currency is an added benefit as it increases purchasing power. In sum, a weak currency increase exports since goods produced become more competitive internationally. When a country considers selling a product at a fixed domestic price such as $100, the export price will be lower and this boosts additional sales and revenues. However, the product would not be competitive if the foreign price is fixed. Precisely, a stronger currency has opposite effects and this is why exporters complain when the currency is strong. A stable currency is paramount for effective trading as it makes business more predictable and minimizes risks that stabilize consumer prices of the products. From the above discussion, many advantages emerge from having a weaker currency. These include increasing exports by increasing the purchasing power of foreign investors who are attracted from the domestic capital markets. However, a weak currency makes import goods more expensive, rendering its prices less appealing for domestic importers. High import product prices fuel inflation and increase the cost of living. Still, a weak currency creates obstacles for domestic firms to expand in the foreign markets. Following this, one would conclude that a country is always worse off when its expected future currency is perceived by speculators as becoming weak or falling in value. References Bodie, Z., Kane, A., & Marcus, A. J. (2011). Investments. New York: McGraw-Hill/Irwin. Karadeloglou, P. V., & Terraza, V. (2008). Exchange rates and macroeconomic dynamics. Basingstoke England: Palgrave Macmillan. Rajan, R. S., & Palgrave Connect.

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