

Teaching Plan

Title	Foreign Exchange
Instructional Objectives	<ul style="list-style-type: none"> ➤ To learn about the difference between the domestic and international values of a currency. ➤ To learn how factors of supply and demand work to set international exchange rates
Keywords and Concepts Illustrated	➤ Exchange Rate
Needed Time	➤ A double-lesson period, 80 minutes in total

Sessions	Details	Time Spent
Activity/ Announcement	<ol style="list-style-type: none"> 1. T: Class, can you tell me which country uses what currency? (Teacher can refer to Table 1 for all the currencies listed). 2. Distribute two or three riyal notes to each student (refer to Appendix I). 3. T: I have three candies (or other items) for sale. Who would like to purchase them? (Usually some students will begin to offer riyals for the candies.) 4. Indicate to students that the price of the candies is one Classroom Buck. Show the students a Buck and tell them that they cannot purchase candies with their riyals. (Let them solve the problem. Usually, one or more students will quickly try to buy the classroom Buck with their riyals.) 5. Begin to auction off each of three Classroom Bucks for round one. (You don't need to worry about getting the absolute highest price for each Buck, but do allow some bidding. You may want to appoint one student as the banker to exchange currencies and one student to serve as a tally keeper.) 6. When you have sold all three Bucks, record the prices on the board and tell students that they can purchase candies with their Bucks if they wish to. (Some students may choose to hold onto their Bucks and not buy a candy. This is O.K.) 7. Distribute another four or five riyals to each student. 8. Announce that you have three more candies for sale at the 	

	<p>price of one Buck.</p> <ol style="list-style-type: none"> 9. Once again auction the Bucks for riyals. Try to let the bidding go until the prices exceed those of round one. 10. Again, let students with Bucks purchase the candies if they wish. 11. Record the prices paid for Bucks in round two. 12. Distribute four or five more riyals to each student. 13. Conduct a third round and record the prices paid. 14. Discussion <ol style="list-style-type: none"> 14.1 Draw students' attention to the tally on the board. Ask "What was a Buck worth in this activity?" <i>(The correct answer is one candy. Money is worth the goods and services for which it can be exchanged.)</i> 14.2 How can we best express the relationship of riyals to bucks? <i>(Someone will come up with terms of number of riyals paid-one buck bought or one buck bought-number of riyals paid etc. This is the correct way to state the relationship.)</i> 14.3 Ask students if they know how relative values of international currencies are expressed. <i>(Explain that they are expressed very much in the same way. You may want to have a student bring the currency rate tables from the business section of the daily newspaper or look up the daily rates on the Internet at CNN Financial online (http://www.cnnfn.com/markets/currencies.)</i> 14.4 Ask students how the value of riyals to bucks was determined in round one. <i>(Acceptable answers are supply and demand, competition, market interactions of buyers and sellers, etc.)</i> 14.5 Ask students how actual international exchange values are determined. <i>(The same way as they were in the activity - through the interaction of buyers and sellers of currencies. You can explain to students that in many international transactions of goods and services the purchaser must pay in the currency of the country selling the product or service, just as they had to pay in Classroom Bucks to buy a candy.)</i> 	
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	<p>14.6 What happened to the value of the riyal relative to the buck in rounds 2 and 3? <i>(The value of the riyal decreased because it took more riyals to obtain a buck.)</i></p> <p>14.7 Did the buck gain in value? <i>(This is a tricky, yet powerful question. The buck can still purchase one candy, so its domestic value was unchanged. However, because it now takes more riyals to purchase a buck, the value of the buck relative to riyals increased.)</i></p> <p>14.8 In the classroom activity, why do you think the value of the riyal decreased relative to the buck? <i>(Because the demand for bucks increased, i.e. people were willing and able to give up more riyals in rounds 2 and 3 than in round 1. It is also because the supply of riyal increases. Teacher should let students know that money market is similar to good market in the sense that the value/price of a currency also depends on its demand and supply.)</i></p> <p>14.9 What caused the change in demand? <i>(The reason is that the teacher gave out more riyals. This action can be seen as a central bank increases the money supply in an economy.)</i></p> <p>14.10 All in all, what sorts of things might cause the demand for a currency to change? <i>(Either country prints more or less money, or either country's goods become more or less desirable are two of many reasons.)</i></p>	
Tools	<ul style="list-style-type: none"> ➤ Candies or other small items for sale, such as stationery ➤ Make enough photo copies of diagram 1 and cut the riyal and classroom bucks out. Make sure every student can get enough riyals in three rounds. Also, there should be enough classroom bucks available for sale in three rounds. 	
Variation	<ul style="list-style-type: none"> ➤ Teacher can change the price of the goods sold. Then show to students that price of the goods/demand for the goods also affects the price of money/exchange rate. That is how the goods market influences the money markets. 	

Definitions	➤ Exchange Rate – is the value of one national money in terms of another.	
References	<p>“Foreign Currencies and Foreign Exchange” provided by Foundation for Teaching Economics. Web site: http://www.fte.org/teachers/lessons/efl/fri/eflfr1.htm</p> <p>Parkin, M. 1996. Economics 3rd ed. (Addison-Wesley Publishing Company Inc.: USA).</p>	

Appendix I – Materials for Teacher

Table 1 World Currencies

Diagram 1 Classroom Buck & Rival