**Topic 5.3 The Impact of Changing Exchange Rates: Activity**



Bishton’s is a small food manufacturer based in Milton Keynes. It makes frozen foods that it sells worldwide. It buys some of its ingredients from abroad. Over the past six months, the value of the pound has fallen against the Euro and the Dollar. For example, whereas six months ago, £1 would buy 1.30 Euro, it now only buys 1.00 Euro. Bishton’s has been pleased with the fall in the value of the pound. It is mounting an aggressive sales drive abroad to market its products. Lower prices are one of the key elements in the marketing initiative. However, Bishton’s costs have risen. In the short-term, this has affected profits because it takes time for overseas sales to increase. Profits have also been affected because it has not increased its prices to UK customers. It sells 30 per cent of its output in the UK, all to shops and other retail outlets in tourist centres in the UK.

1. Complete the following Table:

|  |  |  |  |
| --- | --- | --- | --- |
| **Amount Exchanged** | **UK** | **USA** | **Price** |
| **£1,000** | **£1** | **$1.20** |  |
| **£20,000** | **£1** | **$1.10** |  |
| **£30,000** | **£1** | **$1.30** |  |
| **£30,000** | **£1** | **$0.90** |  |

1. What is an ‘Exchange Rate’?
2. What is the difference between an ‘Import’ and an ‘Export’?
3. State which of the following are ‘Imports’ or ‘Exports’:

|  |  |
| --- | --- |
| **Statement:** | **Import or Export:** |
| Medicine made in the UK and sold to France |  |
| Lemons made in Cyprus sold to the UK |  |
| Car in the UK sold to Germany |  |
| Clothes made in Italy sold to the UK. |  |

1. Bishton’s buys 13,000 Euro worth of raw materials from France. Using the exchange rates mentioned in the passage, calculate the difference in price in pounds that it paid six months ago compared to today. Show you workings. (**3**)
2. The price of a pack of biscuits that Bishton’s sells is £1.50. Explain what has happened to the change in the amount its French customers will have to pay if the value of the pound changes from £1 = 1.30 Euro to £1 = 1.00 Euro. Show your workings. (**3**)
3. Explain TWO reasons why Bishton’s might be ‘mounting an aggressive sales drive abroad’. (**6**)
4. Do you think the fall in the value of the pound will benefit Bishton’s or harm the business? Justify your answer. (**6**)