

Exchange rate changes: Micro factors

Instructions:

Have the students consider how the organisations in the table might be affected by a sudden sharp drop in the £. Get them to do it individually using the printable resource and then feedback to small groups before getting the groups to feed back to the class as a whole using the digital resource.

Exchange rate changes: Micro factors:

Suppose the pound depreciates sharply against other leading world currencies. Fill in the table below to assess how happy or otherwise the organisations named will be:

Organisation	Happy or not?
Sainsbury	
UK universities	
Honda UK	
Toni and Guy	
Legoland	

Exchange rate changes: Micro factors

Possible answers:

Sainsbury – probably unhappy because they import large amounts of food and other products, but don't really export. Costs will therefore increase, meaning that they will have to accept lower profits per unit, put up prices or a combination of the two. Either way, their profitability will probably be hit.

UK universities – probably happy. They do not import much, but a high proportion of students come from overseas. These students pay their fees in sterling, but when the £ is weaker, it costs less in their own currency, therefore making the UK a more attractive destination for education.

Honda UK. Probably neutral to some extent in the sense that they probably import a number of components but also have the EU as a major export market.

Toni and Guy. Probably largely unaffected.

Legoland. Probably happy – more tourists will see the UK as an attractive holiday destination, but also larger numbers of UK citizens may stay at home, because the £ now buys less foreign currency, hence also potentially increasing demand for UK-based attractions such as Legoland.

Extension:

What does any of this depend on? Elasticity, size/duration of the change/ the extent to which demand patterns can change in the short term etc.