**DETERMINANTS of EXCHANGE RATES: The Foreign Exchange Market**

When Americans buy foreign products or make financial investments overseas we demand foreign currency and supply dollars

When foreigners buy American products or make financial investments in the U.S. they demand dollars and supply their currency

DETERMINANTS: Why would Americans demand foreign currency and supply dollars?

To buy more foreign products: PPINT

* Lower prices overseas, higher prices in the US (Pog subs)
* Increase in US incomes (I = Income)
* Increase in tastes for foreign goods (T = tastes)

To invest financially overseas:

* Higher interest rates overseas, lower interest rates in the US

DETERMINANTS: Why would foreigners demand dollars and supply their currency?

To buy more US products: PPINT

* Lower prices in US, higher prices in their country (Pog subs)
* Increase in their incomes (I – Income)
* Increase in tastes for US goods (T=tastes))

To invest financially overseas:

* Higher interest rates in US, lower interest rates in their country

REMEMBER:

- The demand for $ by Mexicans is the same as the supply of pesos. They supply pesos when they buy $.

- The demand for pesos by Americans is the same as the supply of $. We supply $ when we buy pesos.