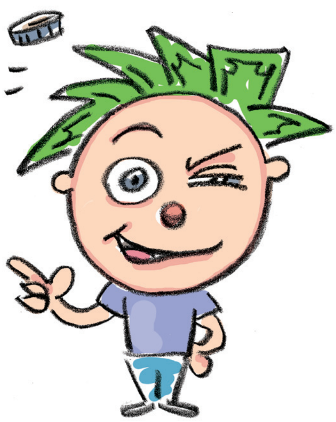
Value of a Loonie

GRADE
11/12

In this lesson, students identify the factors that affect foreign exchange rates and learn how to optimize their personal buying power when exchanging money for travel.



Subject

CGG3O – Travel and Tourism, A Regional Perspective
BBB4M - International Business

Suggested Timing

70 minutes

Financial Literacy Objectives

At the end of this lesson, students will:
- use financial terminology fluently;
- compare the costs associated with various spending scenarios;
- analyze financial data from a variety of sources to make financial decisions;
- understand effect of currency fluctuations on the economy;
- compare current and historical trends in money.

Curriculum Expectations

Canadian and World Studies, Grade 11 and 12 (2005)
Travel and Tourism (CGG30)

Understanding and Managing Change
Analyze the effects of political, economic, cultural, and environmental motivators and barriers on travel and tourism patterns (e.g., currency fluctuations).

Business Studies, Grades 11 and 12 (2006)
International Business Fundamentals (BBB4M)

The Global Environment for Business
- Demonstrate numeracy skills by converting a variety of international currencies to Canadian dollars.
- Identify the factors that affect foreign exchange rates.

Assessment

Review: Foreign Exchange in Action (Appendix E)

What You Need

- Internet/computer/projector (optional)
- World map and currency values (Appendices A, B)
- Currency Match Activity (Appendix C)
- Strong Canadian Dollar: Good for Everyone? (Appendix D)
- Foreign Exchange in Action (Appendix E)

Minds On

Begin the lesson by asking students if they or someone they know has taken a trip that required currency to be exchanged.

To assess knowledge of global currencies, invite students to complete the Currency Match Quiz by displaying it on screen or by providing a handout (Appendix C).

Take up and discuss the answers as a class.

Distribute a list of currencies and exchange rates (Appendix B) or display a variety of rates on screen. Provide each student with an 8"x11'' world map.

Using sticky dots or the dot of a pen, have students indicate places on the map where they have travelled, as well as places where they would like to travel.
Ask students to circle their number one travel destination on the map and have them share their choice with a classmate.

Context for Learning

Bill Fold is a character who is constantly getting himself into financial scrapes.
Use the scenario below to provide students with a context for learning.

Bill Fold has saved $500 for his planned trip to Europe. His friend tells him that he'll need to convert his Canadian cash into Euros before he leaves. Exchange rates??? Conversions??? Bill is baffled.

Action

Instruction:

Introduce the Foreign Exchange market and provide a few facts about what it is and how it operates.

Take students through the sample problem below to help them understand the cost of converting one currency to another.

Action
(continued)

Sample Problem

The ratio of the value of a unit of Currency A to the value of a unit of Currency B is 1.5: 1. How many units of Currency A do you need to buy 100 units of Currency B?

Show the calculation on the board.

Invite students to calculate the rate on $100 CAD if they needed to exchange currency in order to travel to their chosen country. Have students discuss findings and compare rates as a class.

Encourage discussion by asking the following: Why do you think exchange rates fluctuate over time? How does the Canadian dollar stand up against other currencies?

Emphasize some of the political, cultural, and environmental motivators that affect currency rates (e.g., earthquake in Japan).

Discuss possible implications of changing rates on travel and tourism, business and foreign investment.

Read Aloud

Distribute the handout, Strong Canadian Dollar: Good for Everyone? (Appendix D) and have student volunteers read aloud the pros and cons of both a strong and weak Canadian dollar.

Introduce the term "purchasing power" and discuss how paying attention to exchange rates might help a person save money when travelling to another country.

Activity: Exchange Rate Reaction!

To help students visualize and review what happens to purchasing power when the loonie goes up or down, split the class in two. Tell students that the spatial division between the two sides is a political border. Explain that one side of the class represents Canada and Canadian consumers, while the other side represents consumers from a foreign country.

Place a chair at the front of the room. Explain to the class that you will represent the foreign exchange market. When the value of the loonie goes up or down, explain that you will demonstrate this shift by standing or sitting in the chair at the front of the room.

The group of students representing Canadian consumers should then respond to the change in the currency rate by either standing as a group (to indicate that the shift will result in increased purchasing power for the consumer) or remaining seated (to indicate that the rate change will result in decreased purchasing power for the consumer). Ask students on the other side of the room—those representing foreign consumers—to react in the same way to show how the rise and fall of the loonie will affect their purchasing power.

Action
(continued)

Use the following examples as prompts for this activity:

1. **Loonie Value Up = Canadian Purchasing Power Abroad Up:** CAD worth more and buys more foreign goods/services. (In this instance, the teacher stands to show the rise of the dollar, the Canadian consumer group should stand to show the rise in purchasing power up and the foreign group remains seated to show a decrease in their purchasing power.)

2. **Loonie Value Up = Foreign Purchasing in Canada Down:** When CAD is too strong against foreign currencies, foreign businesses/nations get fewer dollars when exchanging their currency. They therefore tend to purchase fewer Canadian goods/services. (Students assigned as foreign consumers remain seated.)

3. **Loonie Value Down = Canadian Purchasing Power Abroad Down:** Since CAD value is down, it is worth less and will therefore purchase fewer foreign goods and services. (Canadian consumer group should remain seated.)

4. **Loonie Value Down = Foreign Purchasing in Canada Up:** If CAD is weak, foreign businesses/nations will most likely purchase more goods/services. (Students assigned to foreign country stand.)

Repeat prompts until it is clear that all students understand how fluctuations in Canadian currency impact purchasing power.

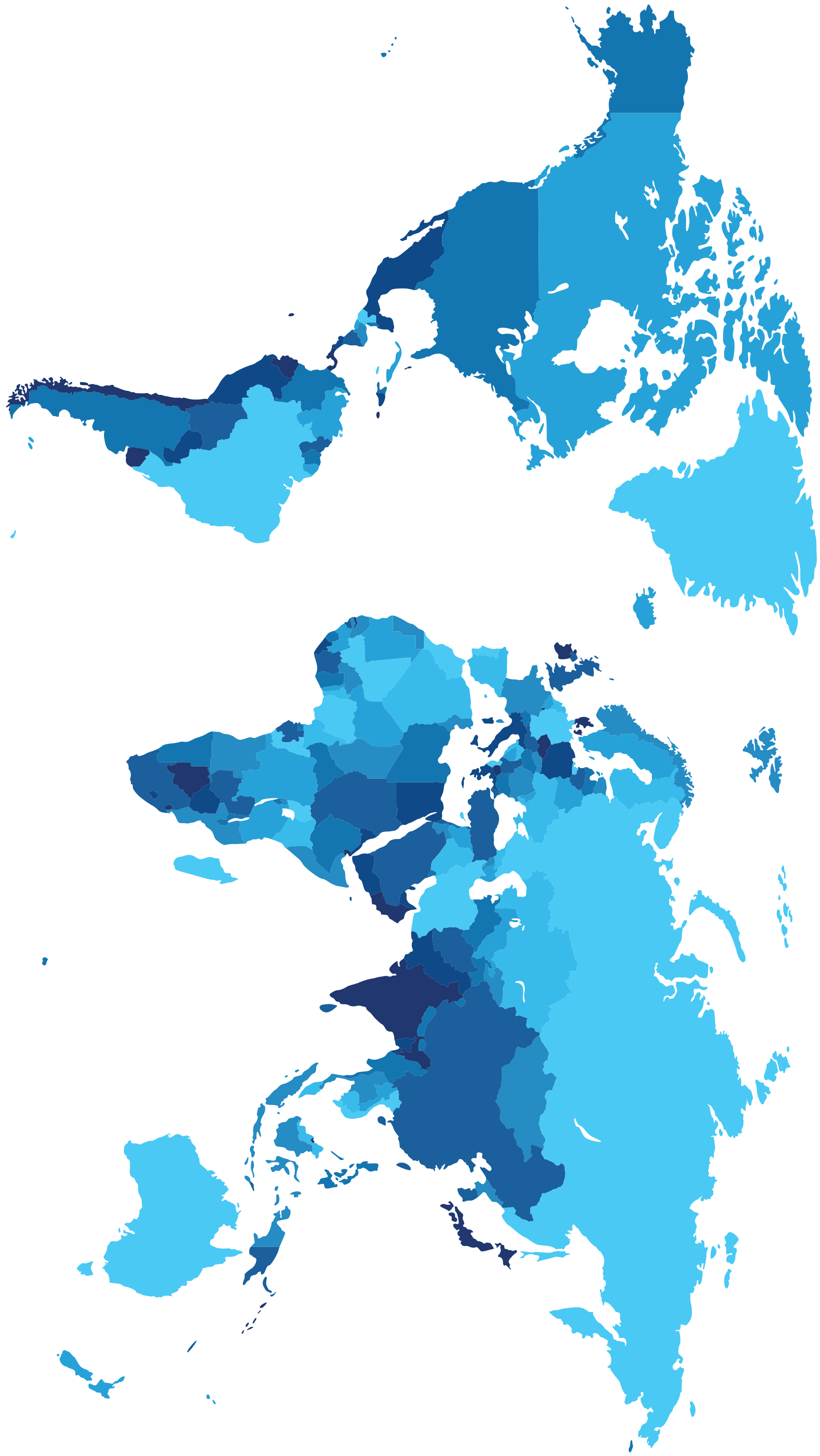
Form groups and invite students to complete the handout Foreign Exchange in Action (Appendix E).

Consolidation/ Debrief

Take up and discuss the answers to the Foreign Exchange in Action handout as a class.

Discuss the following or use these questions as a ticket out the door:
- Why do you think that currency varies from country to country?
- What are the benefits and drawbacks of a high Canadian dollar and/or low Canadian dollar on you as a consumer?
- What should be kept in mind about fluctuations in currency values when travelling?
- What should be kept in mind when doing business or investing?

World Map



Currency Values (March 2012)

Canadian Dollar Values

	1 CAD	in CAD
American Dollar	0.972224	1.02857
Argentine Peso	4.64717	0.215185
Australian Dollar	0.971932	1.02888
Brazilian Real	1.79493	0.557125
British Pound	0.622329	1.60687
Bulgarian Lev	1.42582	0.701349
Chilean Peso	510.195	0.00196004
Chinese Yuan	6.1805	0.161799
Colombian Peso	1913.96	0.000522477
Croatian Kuna	5.4684	0.182869
Danish Krone	5.42225	0.184425
Eurozone Euro	0.729022	1.3717
Hong Kong Dollar	7.57665	0.131984
Hungarian Forint	225.326	0.00443801
Icelandic Krona	116.328	0.00859642
Indian Rupee	50.6094	0.0197592
Indonesian Rupiah	8902.37	0.00011233
Israeli New Shekel	3.68156	0.271624
Japanese Yen	75.687	0.0132123
Latvian Lats	0.508857	1.96519
Lithuanian Litas	2.51716	0.397272
Malaysian Ringgit	3.08048	0.324625
Mexican Peso	13.5705	0.0736893
New Zealand Dollar	1.27717	0.78298
Norwegian Krone	5.72246	0.17475
Pakistani Rupee	85.8492	0.0116483
Philippine Peso	42.4101	0.0235793
Romanian Leu	3.17256	0.315203
Russian Ruble	30.4804	0.032808
Singapore Dollar	1.26164	0.792616
South African Rand	8.12655	0.123053
South Korean Won	1110.81	0.000900241
Sri Lankan Rupee	110.595	0.00904198
Swedish Krona	6.72121	0.148783
Swiss Franc	0.895385	1.11684
Taiwan Dollar	29.5367	0.0338561
Thai Baht	30.4112	0.0328827
Trinidad/Tobago Dollar	6.21354	0.160939
Turkish Lira	1.8001	0.555524
Venezuelan Bolivar	4.17606	0.23946

Currency Match Activity

Match the following countries with their currencies:

_______	1.	Australia	a.	Won
_______	2.	England	b.	Peso
_______	3.	Venezuela	c.	Shekel
_______	4.	Germany	d.	Euro
_______	5.	Switzerland	e.	Dollar
_______	6.	South Africa	f.	Pound
_______	7.	Japan	g.	Krone
_______	8.	Mexico	h.	Rupee
_______	9.	India	i.	Rand
_______	10.	China	j.	Yuan
_______	11.	South Korea	k.	Franc
_______	12.	Russia	l.	Rial
_______	13.	Denmark	m.	Yen
_______	14.	Iran	n.	Bolivar
_______	15.	Israel	o.	Ruble

Currency Match Activity – Answers

Match the following countries with their currencies:

e	1.	Australia	a.	Won
f	2.	England	b.	Peso
n	3.	Venezuela	c.	Shekel
d	4.	Germany	d.	Euro
k	5.	Switzerland	e.	Dollar
i	6.	South Africa	f.	Pound
m	7.	Japan	g.	Krone
b	8.	Mexico	h.	Rupee
h	9.	India	i.	Rand
j	10.	China	j.	Yuan
a	11.	South Korea	k.	Franc
o	12.	Russia	l.	Rial
g	13.	Denmark	m.	Yen
l	14.	Iran	n.	Bolivar
c	15.	Israel	o.	Ruble

Strong Canadian Dollar: Good for Everyone?

When the Canadian dollar is **strong or increases in value** against other currencies, the following situations will most likely occur:

Pros	Cons
Foreign goods and services will cost less, making it cheaper for Canadian businesses to import from foreign countries. Consumers benefit because import prices on goods decrease.	Foreign businesses less likely to import from Canada because they can trade more goods for their money with a different country that has a currency weaker than the dollar.
Cheaper for Canadian citizens to travel abroad since consumers will get more for their Canadian dollars (e.g., food, hotels, souvenirs).	Canada less likely to export goods when dollar is strong; thus, foreign demand for goods will decrease. When this happens, Canadian companies suffer as a result of reducing their international sales.
	Generally, a foreign country will buy agricultural exports cheaper from a country with a weaker currency exchange rate than the Canadian dollar. This means that Canadian farmers will develop a surplus of crops, leading to lower prices. Getting less money for their crops is a disadvantage to farmers.
	The Canadian trade deficit increases since we are importing more than we are exporting.

When the Canadian dollar is **weak or decreases in value** against foreign currencies, the following situations will probably occur:

Pros	Cons
When other currencies are strong relative to the Canadian dollar, international firms will be able to purchase more products from Canada, resulting in an increase in exports.	A weak Canadian dollar translates into higher costs for Canadian businesses to import goods. These costs are passed on to the consumer. When this happens, the price of goods tends to rise.
When we export more goods abroad, we need more people to produce those products, so our employment rate goes up.	When we get less of a nation's currency for our dollar, it costs more for Canadians to travel abroad.
When we export more than we import, the trade deficit decreases.	Less foreign investment in Canadian Treasury bills means less money to finance government expenditures.
When our dollar is weak, other countries can purchase Canadian goods and services at a lower price. For that reason, goods such as agricultural products are in high demand and farmers can expect a rise on most crop and livestock prices.	
A weak dollar attracts foreign investment in Canada; thus, our real estate, businesses, and other investments become good investments for international investors.	

Foreign Exchange in Action

You and your family are going to New York City to visit your relatives.

1. You need US $2000 in spending money. Calculate how much that will cost you in Canadian dollars.

2. You have just arrived in New York. In the past week, from the time that you traded your money until today, the Canadian dollar has decreased in value to US $0.9683. Was it better to trade when you did or would it have been better to trade today? Explain.

3. Another week passes, and the Canadian dollar is now down to $0.9601. You want to go to the Six Flags Great Adventure Theme Park but you've already spent all your American money. You have CAD $120 in your pocket and the trip costs US $100, including park admission, transportation, and lunch. Do you have enough money to go? Show your work.

4. Before you leave, your cousin Ben asks you to send him 50 bags of ketchup chips because they do not sell them in the United States. The Canadian dollar is now down to US $0.9444.

   i) Each bag of chips costs CAD $2.50. How much money will Ben have to exchange, in US$, to buy the chips?

   ii) Is the decreasing value of the Canadian dollar over the past few weeks good for Ben's purchase? Explain.