6.3 Foreign Exchange Market : ER=Exchange rate (direct quote)

Demand for Foreign Exchange	**Supply for Foreign Exchange**
Demand for goods, services and investments produced by ..foreign country....	Demand for goods, services and investments produced by . our own country...
Exchange Rate * Baht Appreciation ($P_{\$} \downarrow$) * Baht Depreciation ($P_{\$} \uparrow$) $P_{\$} \downarrow \Rightarrow$Demand for Dollars $\uparrow$	**Exchange Rate** * Baht Appreciation ($P_{\$} \downarrow$) * Baht Depreciation ($P_{\$} \uparrow$) $P_{\$} \uparrow \Rightarrow$Supply of Dollars $\uparrow$
Price of Imported goods, services * The effect of imported price on value of import depends on price elasticity of import. * Value of import $\uparrow \Rightarrow$ Demand for \$ $\uparrow$ * Value of import $\downarrow$ $\Rightarrow$ Demand \$ $\downarrow$	**Price of Exported goods, services** * The effect of exported price on value of export depends on price elasticity of export. * Value of Export $\uparrow \Rightarrow$ Supply of \$ $\uparrow$ * Value of Export $\downarrow$ $\Rightarrow$ Supply of \$ $\downarrow$
Investments *Thai people invest more in the US: Demand for \$ increases	**Investments** * American invest more in Thailand : Supply of \$ increases
Expectation : Expect \$ to be appreciated in the future $\Rightarrow$ Demand for \$ $\uparrow$ Expect \$ to be depreciated in the future $\Rightarrow$ Demand for \$ $\downarrow$	**Expectation:** Expect \$ to be depreciated in the future$\Rightarrow$ Supply of \$ $\uparrow$ Expect \$ to be appreciated in the future$\Rightarrow$ Supply of \$ $\downarrow$
Central Bank Buy more foreign currency reserves $\Rightarrow$ D of \$ $\uparrow$ (shift to the right)	**Central Bank** Sell more foreign currency reserves $\Rightarrow$ S of \$ $\uparrow$(shift to the right)

1. $\varepsilon_{P_{US_X}} > 1 \Rightarrow$ whenP_{US_X}increases 1% $\Rightarrow$ contributing to the decrease in total expenditure
   Q_{US_X}will fall more than 1% $D_{\$}$will shift to the left and vice versa
2. $\varepsilon_{P_{US_X}} = 1 \Rightarrow$ whenP_{US_X}increases 1% $\Rightarrow$ no change in total expenditure
   Q_{US_X}will fall by 1% no change in $D_{\$}$
3. $\varepsilon_{P_{US_X}} < 1 \Rightarrow$ whenP_{US_X}increases 1% $\Rightarrow$ contributing to the increase in total expenditure
   Q_{US_X}will fall less than 1% $D_{\$}$will shift to the right and vice versa

P_{US_X} = Price of American export

$\varepsilon_P > 1$	$\Rightarrow$	Q will dominate
	$\Rightarrow$	Total Expenditure change in the same direction as Q changes
$\varepsilon_P < 1$	$\Rightarrow$	P will dominate
	$\Rightarrow$	Total Expenditure change in the opposite direction as Q changes

Determination of ε_P : (1) Availability of substitutes (2) Definition of products (3) Short Run and Long Run