

# **Exchange Rates and Their Impact on Trade Flows**

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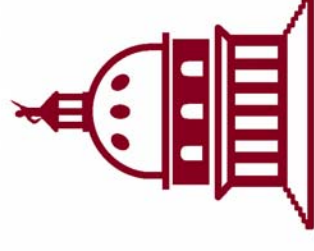
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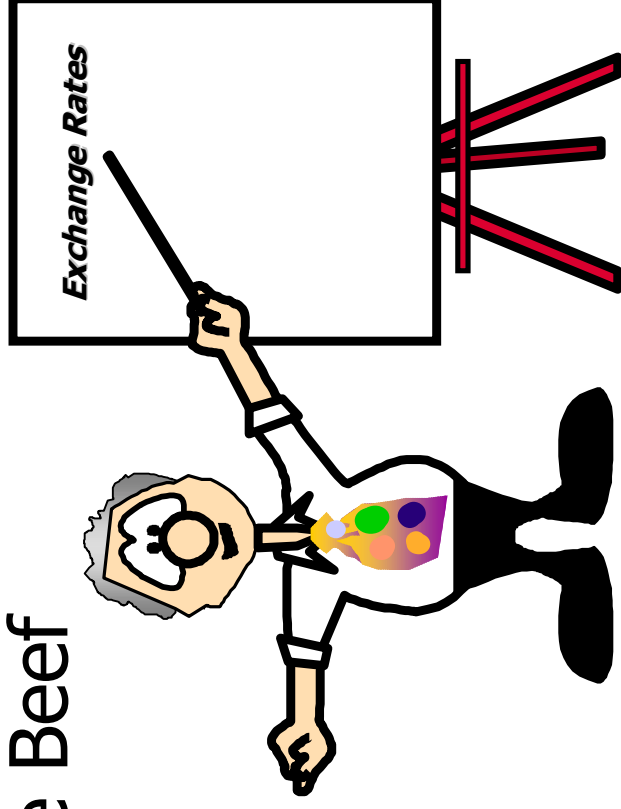


**AFPC**  
AGRICULTURAL & FOOD POLICY CENTER

# Outline of Presentation

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- A Little Economics
- Some Examples
- Where Exchange Rates Matter
- Some Evidence From the Beef Industry



# A Little Economics

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- Importance of Exchange Rates for Ag. First Researched in the Early 1970s
  - Overlooked cause of low prices, returns
- Lots of Ag. Research Since Then
  - Monetary policy, interest rates, inflation
  - Exchange rates

# A Little More Economics

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- Basics Are Easy
  - Currency appreciates
  - Imports are cheaper
  - Exports more expensive
- The Real Question is.....
  - How important are exchange rates when compared to other factors?

# Past Research

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- Research on:
  - Agriculture
  - Specific commodities
- Implications
  - Exchange rate impacts are found to vary from important to small impacts
  - Depends on commodity, time frame examined

# Role of Exchange Rates

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- Equilibrating Role When Markets Require a Movement in Relative Prices
- Flexible Exchange Rates are Less Disruptive to the Economy
- Exchange Rate Movements Matter, But They are Not Always Dominant
- Prices Adjust to Exchange Rate Changes

# Some Examples

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- Canada
  - Long-term change
- Mexico
  - Short-term change
  - Periodical economic problems
- Argentina, Brazil
  - Political instability

# Why Exchange Rates Move

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- Strong Economy (or vice versa)
- Interest Rates, Inflation
- Risk, Instability
  - Political
- Underlying Demands for Goods and Services
- Relative Changes
  - Rest of the world goes down the tubes
  - Evidence for this in the last 5 years

# A Couple More Points

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- The Economy is Complex
  - Policies to fix one problem often cause another
  - There is no silver bullet fix
- Appreciation vs. One Currency, Depreciation vs. Another
- We Import and Export
  - TVs, cars, electronics, apparel
  - Coffee, fruit, vegetables
  - Beef

# Some Evidence From the Beef Industry

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- Research on Exchange Rate Changes on North American Cattle and Beef
  - U.S. exports and imports of cattle and beef
- Results
  - Short-term impact on level of exports, imports
  - Long-term impact on price
  - Impact on price and trade levels was smaller than the change in exchange rate

# Conclusions

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- Exchange Rates Important
- Other Factors More Important
  - Structural economic changes
- Canada, For Example
  - Policy changes (WGTA)
  - Canadian cattle feeding has not expanded because of exchange rates
- Implications
  - Where to locate business investment?
  - Exchange rates go up and down
  - Short, intermediate, long run impacts