

TOPIC: EXCHANGE RATES: PURCHASING POWER PARITY

Purchasing Power Parity

◆ If there is **Purchasing Power Parity (PPP)**, the exchange rate _____ the purchasing power between countries.

	USD (\$)	JPY (¥)
Exchange Rate	\$1	¥150
Price of Soda	\$1	¥150

Purchasing Power Parity? Yes / No

	USD (\$)	JPY (¥)
Exchange Rate	\$1	¥300
Price of Soda	\$1	¥150

Purchasing Power Parity? Yes / No

- ◆ While the foreign exchange market tends towards purchasing power parity, it is not always achieved.
 - Not everything can be traded _____.
 - Countries impose _____ to trade.
 - Products and _____ differ across countries.