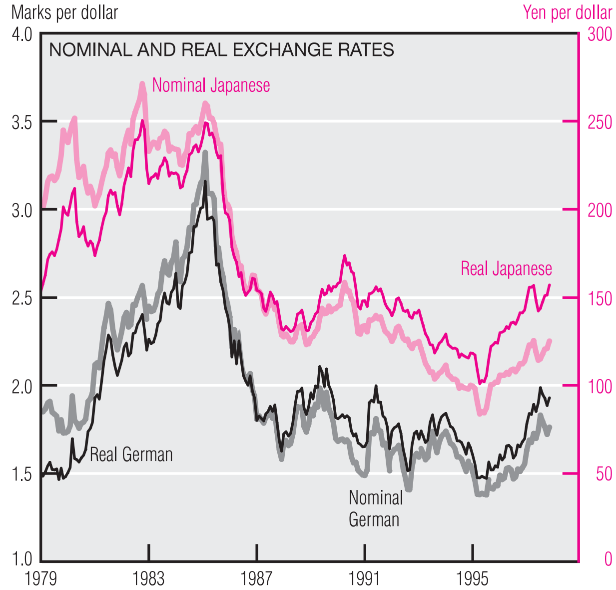
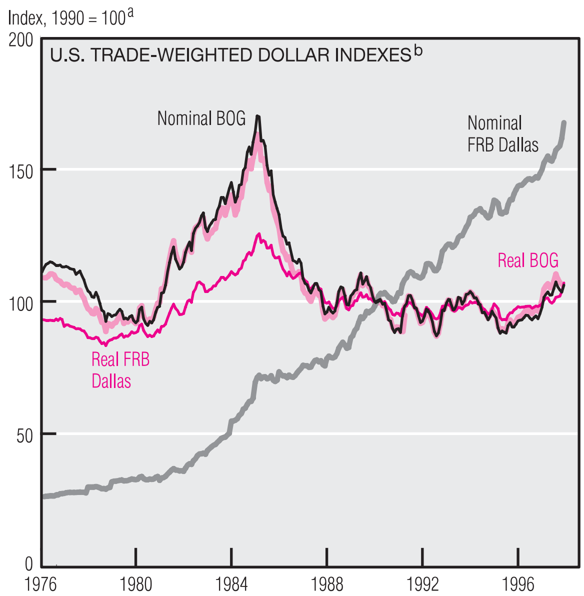
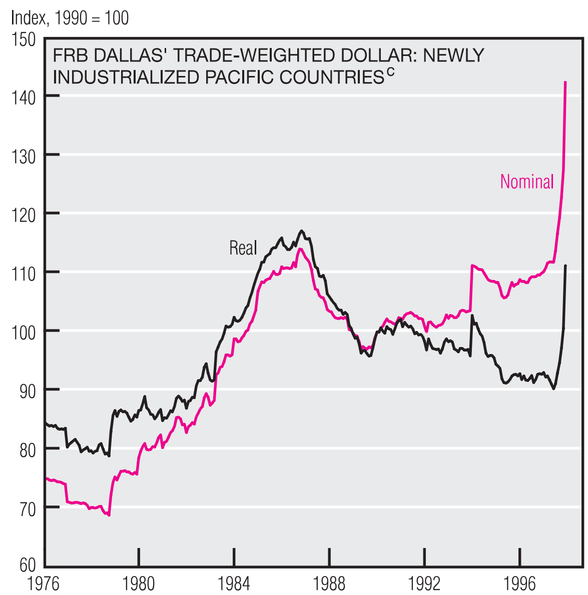
Exchange Rates

U.S. Nominal Exchange Rates

	Percent change since: January 1976	February 1985	August 1992
Canada	43.2	6.5	21.0
France	35.9	–39.6	23.5
Germany	–30.2	–44.8	25.2
Italy	154.5	–12.0	62.2
Japan	–57.5	–50.2	2.6
U.K.	24.0	–33.0	18.5







a. Board of Governors' (BOG) trade-weighted dollar indexes are rebased to 1990 = 100 to match the Federal Reserve Bank (FRB) of Dallas' trade-weighted dollar indexes, which are based in 1990.

b. The countries included in the BOG's trade-weighted dollar indexes are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the U.K. The nominal FRB Dallas index includes 130 countries; the real FRB Dallas index includes 100 countries.

c. Countries included are China, Hong Kong, Indonesia, Korea, Malaysia, Singapore, Taiwan, and Thailand.

SOURCES: Board of Governors of the Federal Reserve System; the Federal Reserve Bank of Dallas; and the International Monetary Fund, *International Financial Statistics*.

Every day, currencies worth more than $1.2 trillion change hands around the globe, and about 83% of these transactions involve U.S. dollars. The exchange rate is the price at which one nation's currency trades for another's. Economists often distinguish between nominal exchange rates, which are the values quoted by banks and newspapers, and real exchange rates, which are conceptual.

Because the dollar often appreciates against some currencies and depreciates against others, economists construct effective, or weighted, exchange-rate indexes (nominal and real) to gauge its average movements. Usually, the weights reflect trade shares between countries. The Board of Governors of the Federal Reserve System, for example, constructs trade-weighted dollar indexes against the currencies of the 10 largest foreign industrial countries. The Federal Reserve Bank of Dallas maintains trade-weighted dollar exchange-rate indexes against 100 or more industrial and developing countries. These two series show starkly different nominal patterns because the Dallas Fed's include many developing countries, where currency devaluation is frequent.

Exchange-rate changes affect the domestic price of foreign goods, but adjustments that merely offset existing inflation differentials do not alter nations' competitive positions. For this reason, economists construct real exchange rates, which remove changes in relative price levels from nominal exchange-rate movements.