

Sliding U.S. Dollar Packs a Wallop to Wallets Worldwide

Quinn Bowman

This article, class activity, and student worksheet are provided by PBS NewsHour Extra, which offers features, lesson plans and teacher resources on a wide variety of contemporary topics at www.pbs.org/newshour/extra/teachers/

The dollar, once one of the world’s strongest currencies, has fallen dramatically in recent years—a development impacting attitudes from corporate boardrooms to the sets of music videos where artists are choosing to flash the euro over American cash.

When measured against a collection of other leading worldwide currencies—like the European euro, the Japanese yen and the Canadian dollar—the U.S. dollar has lost a quarter of its value over the last five years, according to the *Economist* magazine.

The euro and Canadian dollar both used to be worth less than the American dollar. Travelers who once paid 82 cents for each euro must now pay \$1.40 to buy a euro, while the Canadian dollar is approximately equal with its American counterpart.

While this makes it more expensive for Americans to travel outside the country and to buy goods from foreign nations, it makes it easier for U.S. companies to sell their goods overseas, because now they are cheaper.

Deficits Harm the Dollar

The dollar is losing value because of several factors: the federal deficit, the trade deficit and most recently, the weakening economy due to the housing and mortgage crunches.

For several years, the dollar has fallen due to the large amount of money the federal government borrows to pay its bills. In addition, America buys more goods from other countries than it makes and sells—creating a trade deficit that sucks money out of the country.

This worries currency traders, the

people who decide how much currencies like the dollar and euro are worth, because they wonder how long the United States can borrow money and how long it can continue to send its dollars to manufacturers in China and other countries.

Pop Culture Spurns the Dollar

But currency traders aren’t the only folks concerned about the fate of the dollar. Rapper Jay-Z recently released a new video in which he flashes euros, not dollars. And one of the world’s richest supermodels, Gisele Bündchen, said she wanted to be paid in euros because of the dollar’s weak outlook.

“Contracts starting now are more attractive in euros because we don’t know what will happen to the dollar,” Patrícia Bündchen, the model’s twin sister and manager, said, according to the Brazilian magazine *Veja*.

Housing Slump Hurts the Dollar

Meanwhile, the U.S. central bank, the Federal Reserve, has been trying to fix problems in the U.S. housing market in ways that weaken the dollar even further.

Over the past decade, a large number of Americans purchased expensive homes due to low interest rates and the ease of obtaining a large home loan. In some cases, banks loosened their rules

on who they loaned money to and encouraged people to buy bigger and bigger houses because the prices kept going up, making it seem like a good investment.

But now that prices have started to go down, many Americans face the prospect of losing their homes to the banks, and the banks will not be able to sell them because the market is in a downturn. Other home buyers have adjustable loans, which means their monthly mortgage payments may reset to a higher amount after five or seven years.

This recent development has threatened to send the entire U.S. economy into a recession and has also spurred the Federal Reserve to cut the interest rate for borrowing U.S. dollars. The Federal Reserve also released more money to the banking system to encourage banks to keep lending money.

Concerned Currency Traders

Because currency traders would rather hold currencies with high interest rates, this has further lowered the value of the dollar. Various countries that hold American dollars as an investment now have more of an incentive to sell those dollars, creating a larger supply of U.S. dollars in the worldwide market, which decreases their value.

“U.S. housing data are sure to show further deterioration,” Masanobu Ishikawa, of Tokyo Forex & Ueda Harlow, Japan’s largest currency broker, told Bloomberg News. “The housing market won’t improve any time soon, and this is a dollar-selling factor.”



Signs advertise homes for sale in a median across from a row of new townhouses for sale, November 29, 2007, in St. Louis. The nationwide mortgage meltdown has affected homeowners and big corporations alike.

(AP Photo/Jeff Roberson)

Possible Worldwide Shift

The weak dollar and jittery U.S. economy has experts concerned about the dollar's future, considering it accounts for 65 percent of all currencies held worldwide, according to the *Economist*.

Countries like China and Japan, which both hold trillions of dollars worth of U.S. currency, could dump their investments and send the dollar plummeting.

This would cause prices to rise, called inflation, making it more expensive for Americans to buy groceries and gas.

The lack of confidence is spreading to countries that use the dollar as the basis for the value of their own currency. Earlier this year, Kuwait and Syria rejected the dollar and pegged the value of their currencies to a "basket" of other currencies. 🌐

RESOURCES

www.pbs.org/newshour/extra/teachers/lessonplans/economics/dollar_long.html

This lesson plan by Lara Maupin provides historical background on international exchange markets as well as an analysis of the dollar's decline in 2004.

www.oanda.com/convert/classic
A currency converter with more than 100 currencies.

www.pbs.org/wgbh/commandingheights/lo/countries/us/us_money.html

Provides a history of the dollar during the last century.

www.pbs.org/wgbh/commandingheights/shared/minitext/ess_currenciesfloat.html

A description by George J. W. Goodman of floating currency rates.

Compiled by Annie Schleicher for NewsHour Extra

The Sliding U.S. Dollar: Lesson Plan

Estimated Time: One class period for the activity described below. The follow-up essay can be assigned as homework or in another period.

Procedure

- 1. Warm up** Use initiating questions to introduce the topic and find out how much your students know.
- 2. Main activity** Have students read NewsHour Extra's feature story and answer the questions on the student worksheet (next page).
- 3. Discussion** Use the discussion questions (page 87) to encourage students to think about how the issues outlined in the story affect their lives and express and debate different opinions.

Follow-up Activity Students can write a 500-word editorial on the topic expressing their views and send it to NewsHour Extra [extra@newshour.org]. Exceptional essays might be published on the NewsHour Extra website.

Evaluation Students are graded on their answers to reading comprehension questions and/or their editorial.

The Sliding U.S. Dollar Student Worksheet

1. What has happened to the value of the U.S. dollar?

2. How has the value of the dollar affected U.S. citizens and businesses?

3. Why is the dollar losing value?

4. What is wrong with the housing market?

5. How is the Federal Reserve trying to relieve the housing crisis?

6. How did the Federal Reserve changes affect the dollar?

7. What are economists afraid might happen in the international marketplace to further decrease the value of the dollar?

Initiating Questions

1. Is the U.S. economy strong or weak right now? How can you tell?
2. What does “the value of the dollar” mean? How can we tell if the value of the dollar is rising or falling?
3. What are some other currencies out there? What is the euro, the yen, the pound?

Reading Comprehension Questions

(Answers to Questions on Student Worksheet)

1. *What has happened to the value of the U.S. dollar?*
A. When measured against a collection of other leading worldwide currencies—like the European euro, the Japanese yen and the Canadian dollar—the U.S. dollar has lost a quarter of its value over the last five years, according to the *Economist* magazine.
2. *How has the value of the dollar affected U.S. citizens and businesses?*
A. While this makes it more expensive for Americans to travel outside the country and to buy goods from foreign nations, it makes it easier for U.S. companies to sell their goods overseas, because now they are cheaper.
3. *Why is the dollar losing value?*
A. The dollar is losing value because of several factors: the federal deficit, the trade deficit and most recently, the weakening economy

due to the housing and mortgage crunches. For several years, the dollar has fallen due to the large amount of money the federal government borrows to pay its bills. In addition, America buys more goods from other countries than it makes and sells—creating a trade deficit that sucks money out of the country

4. *What is wrong with the housing market?*
A. Over the past decade, a large number of Americans purchased expensive homes, due to low interest rates and the ease of obtaining a large home loan. In some cases, banks loosened their rules on whom they loaned money to and encouraged people to buy bigger and bigger houses because the prices kept going up, making it seem like a good investment.
5. *How is the Federal Reserve trying to relieve the housing crisis?*
A. This recent development has threatened to send the entire U.S. economy into a recession and has also spurred the Federal Reserve to cut the interest rate for borrowing U.S. dollars. The Federal Reserve also released more money to the banking system to encourage banks to keep lending money.
6. *How did the Federal Reserve changes affect the dollar?*
A. Because currency traders would rather hold currencies with high interest rates, this has further lowered the value of the dollar. Various countries that hold American dollars as an investment now have more of an incentive to sell those dollars, creating a larger

supply of U.S. dollars in the worldwide market, which decreases their value.

7. *What are economists afraid might happen in the international marketplace to further decrease the value of the dollar?*
A. Countries like China and Japan, which both hold trillions of dollars worth of U.S. currency, could dump their investments and send the dollar plummeting. This would cause prices to rise, called inflation, making it more expensive for Americans to buy groceries and gas.

Discussion Questions

1. Pick the role of either a U.S. business owner, a parent in charge of purchases for a household, or a musician who works both in the United States and overseas. How does the falling value of the dollar affect you? What actions would you take or what do you want to see happen to improve your situation?
2. Explain how the problem with subprime loans is changing the value of the dollar.
3. Should the Federal Reserve have cut the interest rate and released more currency? Why or why not? What are the pros and cons of each decision?
4. How do economists judge the health of the economy? What debates are there between different schools of economics?

QUINN BOWMAN is an assistant editor and ANNIE SCHLEICHER is an associate editor at *NewsHour Extra*.

This article on the sliding dollar is one of the resources provided by NewsHour Extra to teachers interested in offering classroom instruction based on features from the PBS program, *The NewsHour with Jim Lehrer*.

At www.pbs.org/newshour/extra/teachers/ teachers can access a variety of lesson plans that help students think critically about important contemporary issues. They cover topics ranging from global climate change to how to tell if your lunch has been genetically modified.

NewsHour Extra also offers forums for both students and teachers. For students, the Student Voices page highlights essays and editorials by high school students on topics that have included the definition of torture, the role of religion in politics, and the story of an Iraqi refugee living in Cleveland—but still vitally connected to life in his war-torn city. NewsHour Extra has also launched a Teacher Center Blog (www.pbs.org/newshour/extra/teachers/blog/) to offer a collaboration hub where teachers can share web resources, lesson plans, teaching strategies and personal stories

