

Student's Name

Professor's Name

Course

Date

Finance

- 1. Why did the Chinese yuan depreciate against the dollar between August 2015 and December 2016? What were the benefits of the depreciation for China? What were the costs?**

The currency depreciation was precipitated by a slump in the Chinese economy, which resulted in a capital exodus from China. While the depreciation of the yuan increased export levels, it also led to an unforeseen rise in the yuan value of essential imports (Braml et al. 33). This rise has increased the prices for a range of Chinese businesses and products.

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- 2. Why do you think the Chinese government tried to limit the depreciation by using dollars to buy yuan? Why did it not stop the fall in the yuan?**

The Chinese government purchased yuan using U.S. dollars because doing so was believed to lead to a reduced demand for dollar and avoid future yuan depreciation (Mcgee et al. 322). Due to the considerable number of dollar assets, the availability of dollars grew while the demand for the yuan also rose.

3. Why did conditions reverse in 2017, with the yuan appreciating against the dollar?**What does this tell you about how the foreign exchange market works?**

In 2017, conditions flipped owing to China's recovery and strong growth as well as Donald Trump's victory in the United States. When Trump got elected, international investors lost confidence in US holdings, resulting in a capital outflow as they shifted their investments in foreign stocks and currencies (Desjardins). This phenomenon indicates that several outside variables, such as political stability, impact foreign exchange.

4. What could importers such as the Chinese airlines have done to limit the negative impact of a depreciation in the value of the yuan against the dollar in 2016? Should they have done this?

Foreign exchange issues are often threatening for corporations. Chinese airlines could have invested in foreign exchange spots, forward foreign exchange and the currency swaps (Fabozzi, & Jones 996; Shapiro, and Hanouna 186). Using spots would have secured the institution access to dollars, euros and other foreign currencies to be settled at pre-agreed rates on set dates.

5. If you were a Chinese exporter, what might you have done if you had anticipated the appreciation in the value of the yuan against the dollar that occurred in 2017?

Firstly, I would have reduced the level of exports. The reduction in exports would have meant less use of dollars and as a result a reduction in foreign exchange losses (Laurent 514). The second step, which would be unlikely yet also possible, would be using a currency future to plan for an exchange at a particular level once paid.

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