

International Economics

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The analysis of international economics relies to a great degree on the question of exchange rates and how such rates constantly react and adapt to other market forces. An exchange rate is effectively the price of one currency expressed in terms of another. By understanding exchange rates, we can better appreciate the international economy and how the actions of one nation affect the actions of another. In the article, "South Africa Tourism Boost Adds to World Cup Enthusiasm," Howard Lesser predicts that the 2010 FIFA World Cup will bring more people than ever to South Africa and in turn influence international exchange rates.

This year, for the first time, an African nation will host the 30-day World Cup tournament. The tourism minister of South Africa, Marthius Van Schalkwyk, is confident that his nation will be ready when fans begin to pour in from around the world. Kenneth Hieber, the director of a New York travel agency, explains why South Africa has become an increasingly popular destination in recent years. He attributes this to "the affordability of...South Africa that is making it a rising destination [compared] to other developing countries." Hieber also points out that the majority of fans who will attend the World Cup will have come from the United States of America. This expected increase in the number of American tourists traveling to South Africa will in turn affect both the U.S. dollar and the South African rand. As Americans travel to South Africa, demand for the rand will undoubtedly rise as tourists must pay for their trip and various expenses. However, as the rand's demand increases, the supply of the U.S. dollar will also have to rise, resulting in the rand's appreciation and the dollar's depreciation. Figure 1 below illustrates how the 2010 World Cup and the surge of tourism will affect the foreign-exchange markets in both the United States and South Africa. ●

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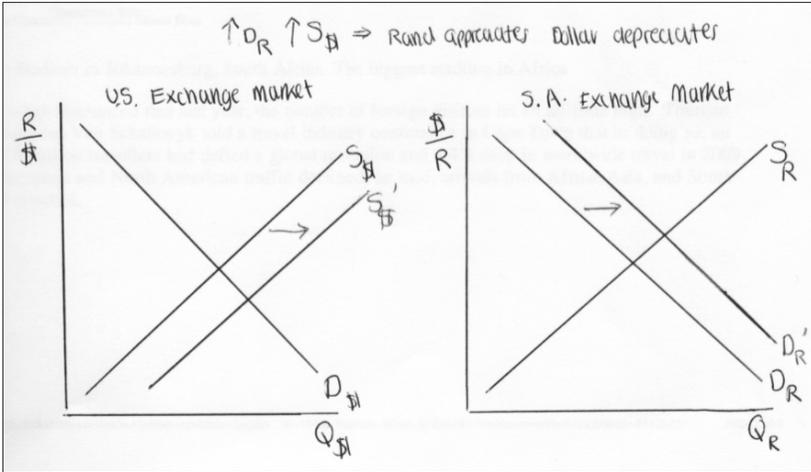


Figure 1: *The effect of the 2010 World Cup and tourism surge on foreign-exchange markets*

Bibliography

Lesser, Howard. "South Africa Tourism Boost Adds to World Cup Enthusiasm." VOAnews.com. <http://www1.voanews.com/english/news/africa/southern/World-Cup-Enthusiasts-to-Supplement-South-Africa-Tourism-Boost-87426287.html> (accessed May 10, 2010).