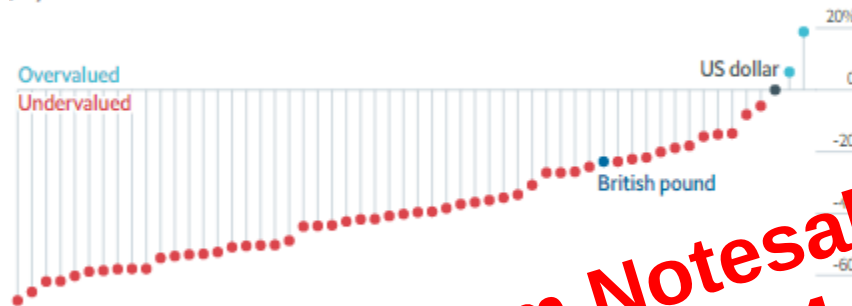


Currency pair between the USD and the Euro shows the number of US dollars (the quote currency) required to buy one Euro (Base currency).

Q 1

Available data that compares the exchange rate between Euro and the Dollar since 1997 to 2017, have shown that the Euro has been on the decline. It is only between 2002 and 2008 that the Euro recorded some positive gain against the Dollar (The economist, 2018).

The British pound is 23% undervalued against the US dollar
July 2018



£3.19 in Britain and US \$5.51 in USA. The implied exchange rate is 0.58. The variation between this and the real exchange rate, 0.75, implies the British pound is undervalued by 23.2%.

The main reasons as to why the Euro has been on the decline is because: there have been higher growth rate of money within the EU, there have been increased growth of per capita income, Higher growth rate of population, increased capital accumulation and growth of index of stocks. The main reason as to why the USD has been appreciating since 2002 is mainly because of low interest rate and which is more attractive to investors. Because of this, investors tend to find the US market to be more attractive when it comes to making investment. As a result, this has fueled the rise in valuation of the Dollar.

Despite the poor performance of the Euro against the Dollar, economist are hopeful that the Euro may catch up with the Dollar in the long run as shown below (Debnath, A. (2018)).

The image besides provides a summary of the exchange rate between the pound and the Dollar. A Big Mac expenses