Exchange rates

The value of the pound appreciates which means that the pound goes up in value compared to the other currencies. The cost of importing will fall because you will be able to buy more with your money. Example: if £1 is worth €1.11 and item of €5 will cost £4.50 but if the £1 appreciates your €5 item will now only cost £4.13 meaning you can buy more.
The cost of exporting will decrease because the £1 is worth less to the other currencies so it costs more for them to buy it.

If the value of the pound depreciates which means it decreases in value, this means you get less currency for your £1. The cost of importing will increase because you will buy less with your money. The cost of exporting will fall because the £1 is worth more to the other currencies so it costs less for them to buy it

Evaluation points:

- Price remains same in your own economy
- Depends on the type of business you are importer, exporter or neither (if neither then exchange rates don't matter)
- Some changes in currency do not effect ours e.g. price of North Koreas currency changing
- Patterns can change in the long run
- Magnitude of change

One way that a significant decrease of the pound against the euro could affect a UK producer of cakes that imports supplies from France is that it would be more expensive to buy the goods from France. This would mean that the cost of the supplies would cost more which in turn affects the cost of making the cakes. They would then have to increase their prices to achieve the same GP which might affect sales because the cakes are more expensive. This might also affect their profits because of the decrease in sales.