**Chapter 3**

**How Exchange Rates Work**

If you do not understand how exchange rates work, this video explains it clearly.

*Use with:* <https://www.youtube.com/watch?v=itoNb1lb5hY> (12:03)

1. Why are exchange rates important?
2. What was the historical role of gold in global exchange rates? Why would it be difficult to institute a gold standard today?
3. China pegs the value of the yuan to the value of the U.S. dollar. Why have critics criticized China for this practice?
4. Would global economics be simpler if all countries used the same currency? Why would such a policy be difficult to implement?