

Re: Weak dollar – budget deficit relationship

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From: Edward (*sorry_at_nospam.com*)

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I had always thought that the value of the dollar was, like everything else, determined by the supply and demand of dollars in foreign exchange markets. Initially, this led me to think that the value of the dollar must be going down because our demand for foreign goods must be greater than foreigners demand for US goods. Is this trade deficit effect also possible along with the aforementioned budget deficit effect?

<quirk@syntac.net> wrote in message
news:1104095070.441382.171450@z14g2000cwz.googlegroups.com...

>

> *Edward wrote:*

> > *Hi,*

> >

> > *I was reading an article in the WSJ (Thurs, Dec. 2) a very verbose
> article*

> > *relating to a newly politically recognized relationship between
> budget*

> > *deficits and the weak dollar.*

> >

> > *Could one of you, in more simplistic terms, please explain how the
> two are*

> > *related today?*

>

> *In principal. the Dollar is worth all the goods created by the economy
> divided by the number of dollars in the economy.*

>

> *When the Government Spends more than it Taxes, it is putting more
> dollars into the economy than it is taking out of it, meaning that the
> amount of dollars in the economy goes up, wile the amount of goods
> remains the same, this contributes to what is known as the inflationary
> gap. However, other things also contribute to the inflationary gap,
> lending practices of Banks, for instance, and only all these things
> taken as a whole can determine wether the dollar will go up or down.*

>

> *However, I do not think that the Deficit is the major cause of the
> collapsing dollar, rather it is the effect of the Euro pushing Dollars
> out of foreign reserves, creating an over supply of dollars.*

> *The dollar will be going farther down for a while yet.*

sci.econ: Re: Weak dollar – budget deficit relationship

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