Re: Weak dollar − budget deficit relationship

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From: Bill (*xxx_at_yy.zz*)
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"Edward" <sorry@nospam.com> wrote in message news:cqnaec$1qa$1@gist.usc.edu...
>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?
>

The trade deficit is the biggest part of it. Suppose you were a country and you made things and your currency was the Eddie. You are in business with two of your friends who also make things and have currencies called the Tommy and the Billy. Over time you are getting them to send you more stuff than you are shipping to them. You do this by paying them in Eddies. They begin to realize they have all these Eddies around and Tommy and Billy each find the other is less willing to accept them in trade. So the next time you try to buy something they say it is going to cost you 5 Eddies instead of 4.

In this world, what other countries typically do with their excess dollars is buy US govt. bonds.

Bill