

Re: Weak dollar – budget deficit relationship

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From: The Trucker (mikcob_at_verizon.net)

Date: 01/10/05

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Edward wrote:

> *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*
>> *devided 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*