

Foreign Exchange: Demand & Supply of Canadian Dollars

1. Demand for Canadian Dollars

- ◆ When **foreigners** want to **buy Canadian goods or services**, they need **Canadian dollars (CAD)** to pay.
- ◆ This **creates demand** for CAD in the foreign exchange market.

✓ What Happens When CAD Depreciates (Loses Value)?

- The exchange rate falls, meaning **CAD is cheaper** compared to USD.
- **Canadian goods become cheaper** for Americans.
- More Americans want to **buy Canadian goods** → More demand for CAD.

◆ Example:

Imagine a Canadian toy costs **\$10 CAD**.

- **Before depreciation:** 1 USD = 1 CAD → Americans need **\$10 USD** to buy it.
- **After depreciation:** 1 USD = 1.25 CAD → Now Americans only need **\$8 USD** for the same toy.
- **Result:** Americans buy more, increasing demand for CAD.

📌 **Key Rule:** When CAD **depreciates**, demand for CAD **increases** because Canadian goods become cheaper for foreigners.

2. Supply of Canadian Dollars

- ◆ **Canadians supply CAD** in the exchange market when they buy **foreign goods and services** (because they need USD, euros, etc.).

✓ What Happens When CAD Appreciates (Gains Value)?


- The exchange rate rises, meaning **CAD is stronger** compared to USD.
- **U.S. goods become cheaper** for Canadians.
- More Canadians buy U.S. goods, increasing the supply of CAD (because they are exchanging CAD for USD).

◆ Example:

Imagine a pair of U.S. shoes costs **\$100 USD**.

- **Before appreciation:** 1 USD = 1 CAD → Canadians need **\$100 CAD** to buy it.

- **After appreciation:** 1 USD = 0.8 CAD → Now Canadians only need **\$80 CAD** for the same shoes.
- **Result:** Canadians buy more U.S. goods, increasing the supply of CAD.

 **Key Rule:** When CAD **appreciates**, supply of CAD **increases** because Canadians buy more foreign goods.

Summary Table: Effects of Exchange Rate Changes on CAD

Scenario	Effect on Demand for CAD	Effect on Supply of CAD
Depreciation (CAD loses value)	Increases (Canadian goods are cheaper for foreigners)	Decreases (Canadians buy fewer foreign goods)
Appreciation (CAD gains value)	Decreases (Canadian goods are more expensive for foreigners)	Increases (Canadians buy more foreign goods)

Final Key Takeaways

- ✓ **Depreciation** (weaker CAD) → **More demand** for CAD, **less supply** of CAD.
- ✓ **Appreciation** (stronger CAD) → **Less demand** for CAD, **more supply** of CAD.