

Understanding the Impact of Exchange Rates

Exchange Rates 101

If you have never lived overseas, it may be difficult to understand the significance of currency exchange rates. We never understood, nor did we even care because it had no relation to our daily lives--until we got here, that is. Now it is just a part of life. Nothing to panic about, but definitely something to keep an eye on.

As people who support overseas missionaries, whether you know it or not, you are also affected. You may not have thought about it this way, but if your missionary gets paid in his home currency (US dollars for us), the amount your missionary receives from you changes depending on the exchange rate. The amount you give on your side stays the same, but its value will either go up or down depending on the current rate. This concept can be difficult to understand, so here is my attempt at an explanation...

Four Common Items

On our last furlough in 2002, the yen rate averaged around Y120 to \$1.00, so we pegged our total support goal on that exchange rate. Using that as a base figure, God raised all the support we needed through generous supporter friends; we hit Taco Bell one more time before getting on the plane, and returned to Tokyo with all we needed to cover our daily expenses--at Y120 to \$1.00. Now let's look at four common items for the example. (Using sample amounts)

At Y120 to \$1:00, let's say...

- \$1.00 buys 1 can of Coke (i.e., if a Coke in Japan costs Y120)
- \$10.00 buys your favorite meal at a local restaurant
- \$100.00 buys a one-way ticket to Nagoya by bullet train
- \$1,000.00 pays for rent (only roughly, that is)

Weak Dollar?

All is fine as long as the rate remains around Y120 to \$1.00. But for reasons that only Alan Greenspan can understand, what if the worth of the dollar becomes weak in relation to the yen? The dollar then buys less yen with each point lost. The rate this winter (2005) has been about Y104 to \$1.00. So how does this affect our example?

- Your Coke now costs \$1.16
- Your favorite meal at the local restaurant becomes \$11.60 (fortunately, no tipping in Japan!)
- A one-way ticket to Nagoya? You now need \$116.00 to get there
- Unbeknownst to your landlord, your rent just went up to \$1,160.00

So just looking at these four items, if the yen drops from Y120 --> Y104, you are now short \$177.76. Now do this math with each and every item you buy with yen and you will see the significance of the exchange rate. Basically, everything suddenly costs more and so you now need to make adjustments by either cutting back or trying to raise more support, or probably both. (Note: if the rate goes to Y121 or over, you conversely get a nice raise ;-)

In a nut shell, that's it. Make sense?  [Current Exchange Rates](#)