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The Washington Post

Change for the Dollar; [FINAL Edition]

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Abstract (Summary)

That is what's happening to the dollar. People are worried that the U.S. economy is in a slump. So they don't want U.S. dollars as much as they once did. They are trading them for other countries' money, and that makes our dollar less valuable.

It's pretty bad. The value of the U.S. dollar has hit an all-time low compared with the euro, the official money of 13 European countries. And, for the first time in 31 years, Canada's dollar is virtually equal to the U.S. dollar.

Staying with Canada as our example, the falling U.S. dollar means that if you go there on vacation and want to buy a souvenir -- a beaded belt, perhaps -- it might cost you 10 U.S. dollars instead of \$7 had you bought it a year ago. In that way, the falling U.S. dollar hurts American travelers and people who rely on buying goods from other countries. Toys made overseas and sold here could cost more this holiday season.

Full Text (598 words)

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The American dollar is slowly sinking. But don't go looking for wet bills in your piggy bank. "Sinking" in this case refers to a decline in the dollar's value. Financial reporter David Cho explains what's been going on.

What does it mean that the U.S. dollar is "falling"? Falling from where?

No, dollar bills aren't dropping out of the sky -- although that would be pretty cool. It means that any money you have is falling in value compared with the money used by other countries.

A bit of math might help explain this. We'll use Canada as an example, since lots of Americans go on vacation there. A year ago, if you traded 10 U.S. dollars for Canadian money, you would have received 14 Canadian dollars in return. Today, 10 U.S. dollars would get you about 10 Canadian dollars.

Who decides what the dollar is worth? How do they do it?

Dollars are traded on exchanges the same way that baseball cards are swapped on the playground.

Most kids who collect baseball cards want at least one of all-star Alex Rodriguez because New York Yankees third baseman hits lots of home runs. But what if A-Rod started to struggle badly at the plate and failed to hit a home run for an entire year? The other kids at school might feel that his card was worth less and want to trade it for one they thought was more valuable.

That is what's happening to the dollar. People are worried that the U.S. economy is in a slump. So they don't want U.S. dollars as much as they once did. They are trading them for other countries' money, and that makes our dollar less valuable.

Just how bad is it for the dollar?

It's pretty bad. The value of the U.S. dollar has hit an all-time low compared with the euro, the official money of 13 European countries. And, for the first time in 31 years, Canada's dollar is virtually equal to the U.S. dollar.

Is it a big deal that the U.S. dollar is worth about the same as Canada's?

In the past, some Americans mocked Canada's currency, calling it "Monopoly money" because of its bright colors and low value compared with U.S. money. Now the tables have turned.

For now, the falling U.S. dollar isn't expected to have a major impact on the economies, or financial health, of Canada and the United States. And the two countries remain close friends. But in terms of national pride, we might have to swallow ours: no more making fun of the money used by our northern neighbors.

Is the falling dollar bad for America's economy?

Yes and no.

Staying with Canada as our example, the falling U.S. dollar means that if you go there on vacation and want to buy a souvenir -- a beaded belt, perhaps -- it might cost you 10 U.S. dollars instead of \$7 had you bought it a year ago. In that way, the falling U.S. dollar hurts American travelers and people who rely on buying goods from other countries. Toys made overseas and sold here could cost more this holiday season.

But people coming here from other countries will find that American goods are now less expensive for them to buy. More of them will visit Disney World and other U.S. tourist spots, spending money in our hotels and restaurants. Our farmers will sell more food to other countries. Our factories will sell more cars and other goods overseas.

Eventually this will boost our economy and help the dollar rise in value again.

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