

Unit 1 *Exchange Rates*

Introduction

Learning objectives

This is the first unit in the Finance strand. Here we deal with the important subject of currency exchange. After completing this unit you should

- be able to calculate currency conversions based on exchange rates
- appreciate the differences between buying and selling rates
- be able to undertake currency conversions, including those involving commission rates.

Introduction

This is a practical topic, relevant for individuals visiting other countries as well as for businesses trading internationally. Given the exchange rate, conversion between currencies is straightforward but the process becomes more complicated when consideration is given to the differences between *buying* and *selling* rates - and even more complex when *commission* is also taken into account. There is also the problem of finding the optimum action to take when exchanging currency in preparation for a holiday abroad. Different companies offer different rates, but their commission charges often vary and some offer a buy-back incentive for any foreign currency you might bring home with you.

On the other hand, with today's technology, you will often find that the most effective way of exchanging currency for your holiday is to use local ATM machines when abroad (unless you're planning to visit really remote locations!).

Key points

- for currency exchange, two rates are offered - namely the buying and the selling rate
- banks and currency exchange companies charge commission, using a percentage rate or a fixed fee.

Glossary of terms

- *Exchange rate*: the rate of exchange between currencies.
For example: If £1.00 = \$1.57, then you receive \$1.57 for each £1 you exchange
- *Selling rate*: the rate at which banks and other institutions will *sell currency to you*
- *Buying rate*: the rate at which banks and other institutions will *buy currency from you*
- *Commission*: the amount (usually a rate given as a percentage) that the bank or institution charges for undertaking a currency exchange transaction.