

Currency: The system of money a country uses.

exchange rate: the price of one country's currency in terms of another nation's currency

- exchange rates fluctuates day to day.
- international trade depends on currency.
- banks, travel agents, business owners, tourists must consider exchange rates.
- may need to order in advance and fees are involved.



Dean displays oysters ready for sale at Rodney's Oyster Depot. After a shipment of oysters is received, the oysters are graded and sold to domestic and international customers.

MATH ON THE JOB

Dean MacEachern grew up in Cornwall, Prince Edward Island, and attended Bluefield High School in Hampshire. Dean is now the plant manager for Rodney's Oyster Depot. "My main duties are shipping and receiving of oysters. I also do the sales to and invoicing of clients," he says. Dean is also responsible for ensuring that the quality of the oysters he sells meets or exceeds the standards set by the Canada Food Inspection Agency (CFIA).

Oyster distributors from different countries purchase oysters, by the piece, from Dean. He must ask for and compare price quotes in the currency of the country the oysters will go to. When selling oysters to an American distributor, Dean uses information on the exchange rate, gathered over a 60-day cycle, to estimate a competitive price he can sell the oysters for. The exchange rate changes every day during this cycle. What strategies can Dean use to estimate a competitive price?

SOLUTION

Dean could use exchange rate information from a 60-day cycle to calculate an "average" oyster price for this period. The average price would be a competitive price he could negotiate for with the American distributor.



Australia



Dollar



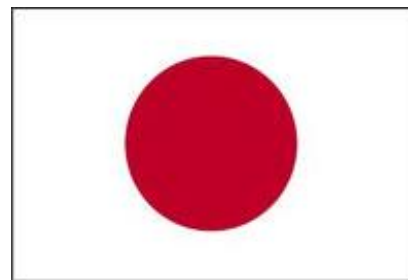
Germany

Euro





Yen



Japan

Scotland



Pound





Dollar



Singapore



Switzerland

Franc



Egypt



Pound



Buying Rate The rate at which a currency exchange buys money from customers



The rate at which a currency exchange sells money to its customers **Selling Rate**



Exchange Rate

The price of one country's currency in terms of another nation's currency.



Canadian Dollar		
click on values to see graphs	1 CAD	in CAD
American Dollar	1.0146	0.98561

USD	1.000
CAD	1.063

EXAMPLE #1:

On a specific date, the selling rate for the Danish krone compared to the Canadian dollar is 0.221778. How many kroner will you receive for \$500.00 CAD?



Let's do a conversion...
Delete to reveal

HINT

The unit of Danish currency is the krone, which is the Danish word for crown. The plural of krone is kroner.

$$1 \text{ Krone} = 0.221778 \text{ CAD}$$

$$500 \text{ CAD} \times \frac{1 \text{ Kroner}}{0.221778 \text{ CAD}} = 2254.51 \text{ Kroner}$$

EXAMPLE #2:

On the same day as the previous example, the buying rate for kroner was 0.210778. If, after purchasing your kroner, you decided not to go to Denmark and sold the kroner back to the bank, how much would you lose?

Solution...

Delete to reveal



$$2254.51 \text{ Kroner} \times \frac{0.210778 \text{ CAN}}{1 \text{ Kroner}} = \$475.20$$

$$\text{Lost} = 500 - 475.20 = \$24.80$$

FIGURE 1.2 Discuss... Rates in Can. Dollars

Exchange Rates Compared to the Canadian Dollar

<small>(Bank BUYS your foreign money)</small> Bank buying rate	Country	Currency units	<small>(Bank SELLS you foreign money)</small> Bank selling rate
0.950964	Australia	dollar	1.006964
1.580814	Austria	euro	1.644814
1.580814	Belgium	euro	1.644814
0.534900	Brazil	real	0.697000
0.127100	China	yuan	0.162600
0.210778	Denmark	kroner	0.221778
1.996146	England	pound	2.060146
0.159300	Egypt	pound	0.217300
1.580814	European Community	euro	1.644814
1.580814	Finland	euro	1.644814
1.580814	France	euro	1.644814
1.580814	Germany	euro	1.644814
1.580814	Greece	euro	1.644814
0.128451	Hong Kong	dollar	0.133451
1.580814	Italy	euro	1.644814
0.009295	Japan	yen	0.009855
0.012510	Kenya	shilling	0.017300
0.083443	Mexico	peso	0.108443
1.580814	Netherlands	euro	1.644814
0.748264	New Zealand	dollar	0.798264
1.996146	N. Ireland	pound	2.060146
0.194863	Norway	kroner	0.205863
0.012360	Pakistan	rupee	0.019360
1.580814	Portugal	euro	1.644814
1.580814	Republic of Ireland	euro	1.644814
1.996146	Scotland	pound	2.060146
0.737280	Singapore	dollar	0.762280
1.580814	Spain	euro	1.644814
0.165558	Sweden	krona	0.175558
0.982007	Switzerland	franc	1.017007
0.026550	Thailand	baht	0.035120
1.004350	United States	dollar	1.038650

* Rates as of October 24, 2008





EXERCISE: Use the table on page 45 to answer the following questions.
(Solutions on the next slide)



1) Calculate the amount of money you would receive in Canadian dollars if you sold 4500 shillings to the bank.


2) Arnold is making a movie in Thailand, his travel allowance is \$3000. How much money will he have in the local currency for his expenses in Thailand.

$$\textcircled{1} \quad 4500 \text{ shillings} \times \frac{0.012510 \text{ CAD}}{1 \text{ shilling}} = \$56.30$$

$$\textcircled{2} \quad \$3000 \times \frac{1 \text{ baht}}{0.035120 \text{ CAD}} = 85421.41 \text{ baht}$$

1) Calculate the amount of money you would receive in Canadian dollars if you sold 4500 shillings to the bank.

Buying Rate for Kenya 0.012510

$$4500 \text{ shillings} \times \frac{0.012510 \text{ CAD}}{1 \text{ shillings}} = \$56.30$$


2) Arnold is making a movie in baht Thailand, his travel allowance is \$3000. How much money will he have in the local currency for his expenses in Thailand.

Selling rate \Rightarrow 0.035120

$$\$3000 \text{ CAD} \times \frac{1 \text{ baht}}{0.035120 \text{ CAD}} = 85421.41 \text{ baht}$$

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