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ABSTRACT

This instructional unit identifies monetary units from various countries and explains exchange rates and the process of international payments. The materials consist of a four-page leaflet, a multiple choice test, and a combined information sheet/teacher's guide. The unit is intended for use in connection with discussion on international economy. (JB)

Information Sheet and Teacher's Guide

Their Money by James F. Tucker
Federal Reserve Bank of Richmond

SO

Information Sheet and Teacher's Guide

THEIR MONEY *by James F. Tucker*
FEDERAL RESERVE BANK OF RICHMOND

Introduction

Their Money is an instructional unit designed to enhance students' knowledge of the international economy and to give them a greater appreciation for the activities that take place when people of one nation conduct financial transactions with people of other nations. The material in this unit provides students with information that they may eventually need in their travels abroad or in future business transactions.

General Description and Format

The main component of *Their Money* is a four-page leaflet that identifies monetary units from various countries and reviews some key elements of international economics, such as the processing of international payments. The leaflet explains and illustrates terms and concepts associated with international economics and international finance.

The other components of *Their Money* are:

1. this Information Sheet and Teacher's Guide, which consists of basic information about the exercise and suggestions for the teacher, and
2. a Test Bank containing questions on the discussion in the leaflet.

Suggested Classroom Procedure

Their Money should be used in conjunction with the lessons on international trade. The leaflet may be distributed to students, with instructions to review and report back any questions on the material. If there are no questions from the students, the teacher should develop and ask a few questions for review. The test may be administered after the teacher feels that the students have a reasonably clear understanding of the material in the leaflet.

Answers to Test

1. b	**6.** c
2. c	**7.** d
3. d	**8.** e
4. d	**9.** d
5. b	**10.** c

THEIR MONEY

by James F. Tucker July 1988
FEDERAL RESERVE BANK OF RICHMOND

FOREIGN CURRENCY UNITS

When you buy or sell products or services in the United States, you use U.S. currency, namely dollars, or some fraction of dollars in the form of coins. On the other hand, when you buy or sell products in foreign countries, you must use their money—the currency of the country with which you are conducting business.

The following is a list of selected countries and the names of their currency units.

COUNTRY	CURRENCY UNIT
Australia	dollar
Austria	schilling
Bahamas	dollar
Belgium	franc
Canada	dollar
China, P.R.	yuan
Denmark	krone
France	franc
Germany, F.R.	deutsche mark
Greece	drachma
Hong Kong	dollar
India	rupee
Ireland	pound
Italy	lira
Japan	yen
Korea, Rep. of	won
Malaysia	ringgit
Mexico	peso
Netherlands	guilder
New Zealand	dollar
Norway	krone
Portugal	escudo
Saudi Arabia	riyal
Singapore	dollar
South Africa	rand
Spain	peseta
Sri Lanka	rupee
Sweden	krona
Switzerland	franc
Thailand	baht
United Kingdom	pound
USSR	ruble

EXCHANGE RATES

The *exchange rate* is simply the number of units of one nation's currency that exchanges for a unit of another nation's currency. In May 1988, the exchange rate between the United States dollar and the currency units of five other nations was as follows:

$1.00 = 124.70 yen

$1.00 = 11.83 schillings

$1.00 = 1.6833 deutsche marks

$1.00 = 1,267.80 lira

$1.00 = 111.60 pesetas

Exchange rates between various currency units change frequently. These changes result from trade and lending among countries which, in turn, cause changes in the demand for and supply of various currency units.

For example, if on a given day Americans buy many television sets directly from Japan, and no other transactions between people in the United States and Japan take place that day, Americans must "buy" yen with their dollars to pay for the sets. This will increase the *demand* for yen (Americans want to buy more) and will increase the *supply* of dollars (Americans will seek to sell dollars in order to purchase yen). The increased demand for yen and the increased supply of dollars could cause the exchange rate on that day to change. For example, if the surge in sales of Japanese-made television sets to Americans and the resulting changes in the supply of and demand for currencies have reduced the price of dollars in terms of yen—from 128 yen per dollar to 125 yen per dollar—then the following adjustment would take place.

CHANGE IN THE EXCHANGE RATE
from

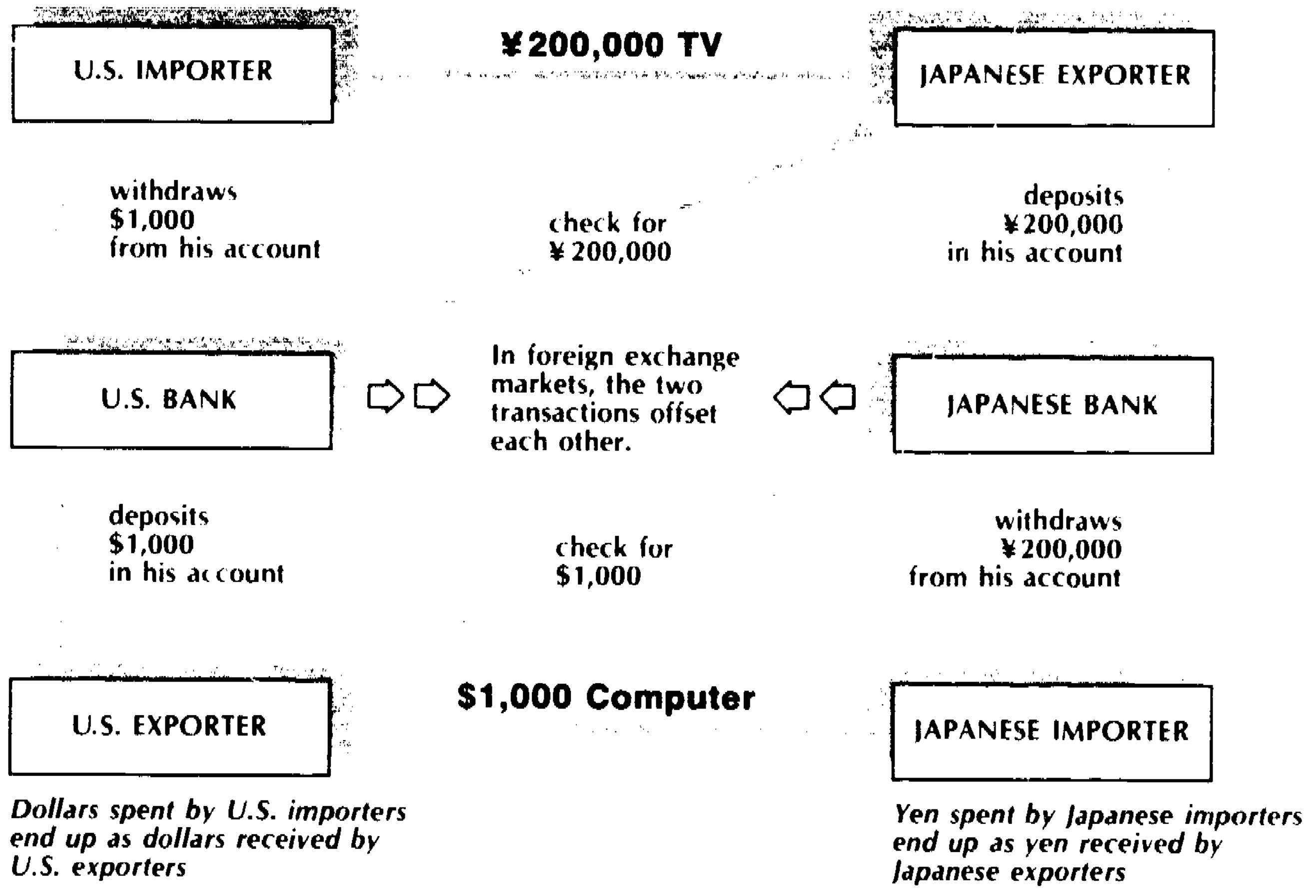
$1.00 = ¥128

to

$1.00 = ¥125

This would mean that the price of yen has risen in terms of dollars. Previously, you could buy ¥128 for $1.00, but now ¥128 would cost you $1.024. Under such circumstances, we say that the yen has appreciated, or risen, against the dollar, or that the dollar has depreciated, or fallen, against the yen.

THE PROCESS OF INTERNATIONAL PAYMENTS



INTERNATIONAL PAYMENTS

When people in different countries decide to buy or sell commodities or services, they must consider how payments will be made. Suppose you, as an American, purchase a television set directly from a manufacturer in Japan. How, when, and where will the Japanese manufacturer get his yen so that he can spend the money in Japan?

Assuming a hypothetical exchange rate of $1.00 = ¥200, you would first write a check for $1,000 which your bank would convert to ¥200,000. When the Japanese manufacturer receives your payment in yen, he takes it to his bank and cashes it or adds it to his account there. The bank in Japan now has a check from a bank in the United States that promises to pay a certain amount of yen.

Suppose that at the same time you paid for your television set, a resident of Japan paid a U.S. manufacturer $1,000 for a computer. The example above illustrates the path of both transactions.

Thus, when trade is in balance, money of different nations does not actually change hands across the seas. In this example, the value of Japan's exports to the United States equals the value of Japan's imports from the United States, so the yen that Japanese importers use to buy dollars to pay for American goods are just equal to the yen that Japanese exporters receive in payment for the goods they send to the United States. A similar equality would exist in the dollars flowing, in effect, from the U.S. importers to U.S. exporters.

In theory, therefore, importers in a country pay exporters in that same country in their nation's currency. In practice, however, exporters and importers in the same country do not need to get together in order to carry through the payment. These transactions are handled by banks.

TRAVELING ABROAD

As an American traveling abroad, you may wish to take a certain amount of U.S. currency to exchange for the currency at a foreign bank. This exchange will be made at the current exchange rate (minus any fees charged).

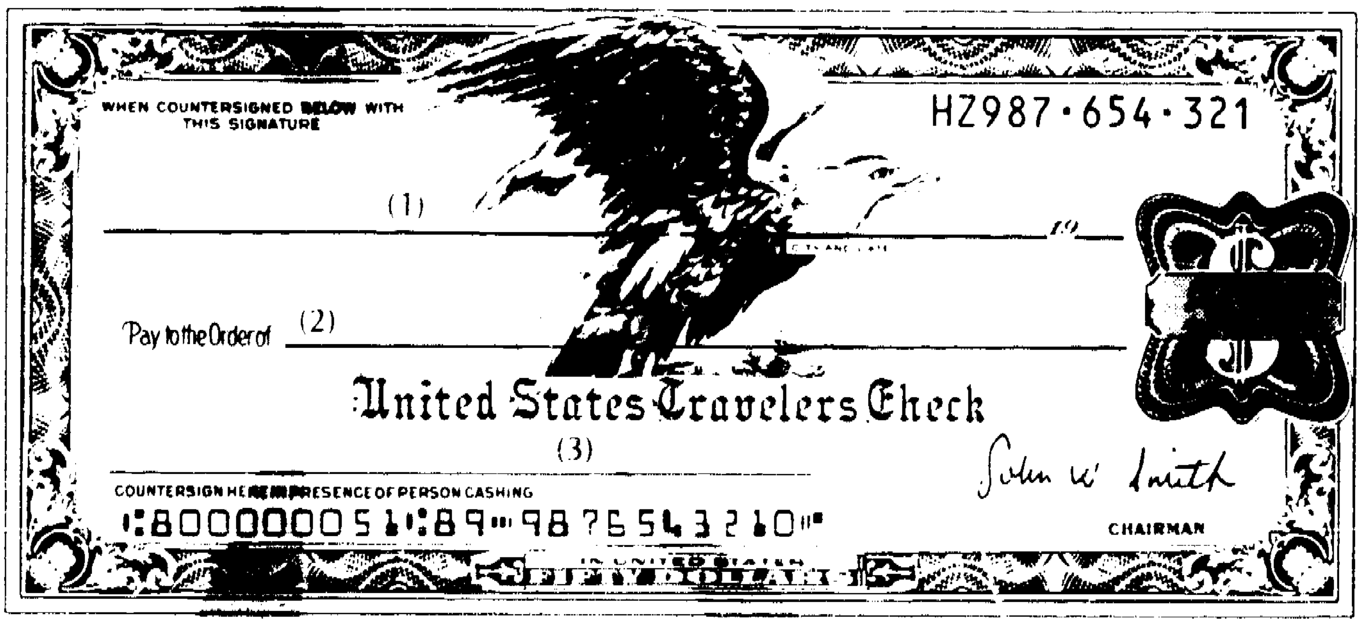
The currency transaction is similar to that which occurs when an American business firm imports a product from a foreign country. For example, if you are in Italy as a tourist and decide to buy souvenirs in Rome, you must pay for your purchases with lira. As a result, your purchases increase the demand for lira and also increase the supply of dollars (which you exchanged for lira) in the international economy.

In addition to or as an alternative to carrying cash, you may wish to buy *travelers checks* before you leave for your trip. Safety is the primary reason for carrying travelers checks. If they are lost or stolen, you can usually be reimbursed for their value. To make purchases from some business establishments abroad, particularly the smaller ones, you may still need to convert your travelers checks to the currency of that foreign country.

You may purchase travelers checks from your local commercial bank or from other authorized sellers. The seller will inform you on how to fill out the check and where to record your serial numbers. Below is a sample travelers check, along with the appropriate instructions for its use.

If you do not spend all of your foreign currency while abroad and do not get a chance to exchange it for U.S. currency before leaving, you may exchange the foreign currency when you return home. Most banks, however, will not accept foreign coins in the exchange.

(1) As soon as you purchase the travelers checks here in the United States, immediately sign each check on this line.



(2) When you are ready to pay for a product or service, write the name of the seller on this line.

(3) You should sign your name on this line only when you are ready to pay your bill. The seller must witness your signature.

TEST BANK

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1. **The dollar is the currency unit in which of the following countries?**
   - **a.** Mexico
   - **b.** Canada
   - **c.** Norway
   - **d.** United Kingdom
   - **e.** Japan

2. **The yen is the currency unit in which of the following countries?**
   - **a.** Italy
   - **b.** Belgium
   - **c.** Japan
   - **d.** France
   - **e.** Mexico

3. **Changes in the exchange rate result from which of the following?**
   - **a.** price of TV sets made in the United States
   - **b.** number of Americans with deposits in banks
   - **c.** number of TV sets that Americans buy with cash rather than credit
   - **d.** various international transactions
   - **e.** the number of homes built in the United States

4. **If millions of Americans buy products from Switzerland one day and no other transactions take place between the United States and Switzerland on that day, which of the following developments will take place?**
   - **a.** the exchange rate between the dollar and the franc will change
   - **b.** the demand for the Swiss franc will increase
   - **c.** the supply of dollars will increase
   - **d.** all of the above
   - **e.** none of the above

5. **Assuming the same situation as in Question #4, which of the following will happen to the dollar?**
   - **a.** the dollar will rise against the franc
   - **b.** the dollar will fall against the franc
   - **c.** the dollar will remain the same against the franc
   - **d.** all of the above
   - **e.** none of the above

(over)

TEST BANK

(continued)

6. **If the U.S. dollar appreciates in relation to the Mexican peso, it also means that:**
   a. the dollar has fallen against the peso
   b. there has been no change in the exchange rate between the dollar and the peso
   c. it takes fewer dollars to equal the same number of pesos
   d. all of the above are correct
   e. none of the above is correct

7. **When Americans spend money abroad, this spending amounts to:**
   a. the export of U.S. goods to foreign countries
   b. the same as spending money for U.S.-made goods in New York
   c. receiving money from someone living in a foreign country
   d. none of the above
   e. all of the above

8. **You may obtain travelers checks from your local bank *only* when you do which of the following:**
   a. establish a checking account at the bank
   b. present a receipt showing that you have paid your federal taxes
   c. show your passport to the bank teller
   d. all of the above
   e. none of the above

9. **When you initially obtain your travelers checks from a bank, you should do the following:**
   a. sign all of the checks at the top
   b. keep the checks in a safe place
   c. record the serial numbers of the checks
   d. all of the above
   e. none of the above

10. **When using travelers checks, you should sign the bottom blank line marked "countersign" when you do the following:**
   a. buy the checks at the bank
   b. record the serial numbers
   c. actually spend the check, and in the presence of the seller
   d. all of the above
   e. none of the above