

## Exchange Rates and currency conversion

In the finance world, an **exchange rate** (**foreign-exchange rate**, or **forex rate**) between two currencies is the rate at which one currency will be exchanged for another. For example, an interbank exchange rate of 0.82 EUR to the USD means that 0.82 EUR will be exchanged for each US\$1.

Exchange rates are determined in the foreign exchange market, which is open to a wide range of different types of buyers and sellers, the currency trading is continuous during the 24 hours except for weekends.

There are two types of exchange rates : The **spot and forward exchange rates**, the first refers to the current exchange rate, while the later refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date.

In the official currency exchange markets, different **buying rate** and **selling rate** will be quoted by currency dealers. Most trades are to or from the local currency. The buying rate is the rate at which money dealers will buy foreign currency, and the selling rate is the rate at which they will sell the currency. The quoted rates will incorporate an allowance for a dealer's margin (or profit) in trading, or else the margin may be recovered in the form of a "commission" or in some other way.

Different rates may also be quoted for cash (usually notes only), a documentary form or electronically (such as a credit card ATM withdrawal, on-line purchase). Most higher fees are applied on documentary transactions which for the additional time and cost of clearing the document, while the cash is available for resale immediately. Some dealers on the other hand prefer documentary transactions because of the security concerns with cash.

## Why do we need Currency Conversion :

Everyone may need to exchange currencies in a number of situations like traveling in foreign country that uses other currency, but not within EURO zone for example, getting paid from foreign customers for goods or services.

There are variations in the buying and selling rates for a currency between foreign exchange dealers and forms of exchange, and these variations can be significant. For example, consumer exchange rates used by Visa and MasterCard offer the most favorable exchange rates available, unlike banks and airport companies who offer the most expensive rates in the U.S.

there are many on-line services to get current and historical exchange rate, these currency converter services like **foreign currency converter**

## Exchange rate regime:

Each country, manages the variation and rate of its currency in a proper way. it determines the exchange rate regime or function that will apply to its currency. so, the currency may be free-floating, pegged or fixed, or a hybrid.

If a currency is free-floating, its exchange rate is allowed to vary against that of other currencies and is determined by the market forces of supply and demand. Exchange rates for such currencies are likely to change almost constantly as quoted on financial markets, or banks, around the world.

A peg system is a system of fixed rate, but with a provision for the revaluation (usually devaluation) of a currency. For example, between 1994 and 2005, the China (RMB) was pegged to the USD at RMB 8.2768 to \$1.