

Title:

Exchange Rates - Keeping an Eye on Them

Word Count:

687

Summary:

Keeping an eye on currency exchange rates is essential when traveling if staying within a budget or if just not wasting money is of concern to you at all. What does exchange rate mean? Typically, using the US dollar as a guide, other currencies would be worth more or less than a dollar for exchange of value.

Keywords:

vacation, destination, fun, money, exchange rates

Article Body:

Keeping an eye on currency exchange rates is essential when traveling if staying within a budget or if just not wasting money is of concern to you at all. What does exchange rate mean? Typically, using the US dollar as a guide, other currencies would be worth more or less than a dollar for exchange of value. For instance, a Canadian dollar might be worth 85 percent of an American dollar, or 85 cents. Then when comparing a US dollar to the British pound, it a pound might be worth two US dollars. The fluctuating exchange rate means that, depending on market conditions, one day a pound might be worth two dollars, and the next day a pound might be worth two and a half dollars, and the next day worth one dollar and ninety cents.

A currency will be either free floating or pegged. A pegged currency is fixed by the government relative to the value of another currency. For example, the Hong Kong dollar in the 1980's was fixed or pegged relative to the US dollar and always worth a set percentage of the currency it was pegged to. A free floating currency is allowed to fluctuate in value relative to all the other currencies on the foreign exchange market. When discussing currency people also refer to the nominal exchange rate, and the real exchange rate. The nominal rate is the rate at which a currency of one country can be traded for the currency of another. The real rate is the rate at which goods and services of one country can be traded for the goods and services of another. If, for example, the price of a product increases by ten percent in the US and there is a ten percent appreciation in the Canadian economy against US currency, the price of the product would remain constant for Canadians despite the US price increase. This is of course assuming that no tariffs are involved.

As a practical matter exchange rates will change from country to country and can be used to make travel and tourism more attractive in certain countries at certain times, so if there are several countries you'd like to visit and you have a flexible schedule, keep an eye on the exchange rates. If a person is a visitor in New York City it is easy to see how people in other countries follow this rule. At certain times the city of New York will be flooded with visitors from Germany, France, the UK, or Japan. The reason for this is quite simple. When the exchange rate favors the Japanese or the Europeans, then visiting America becomes much cheaper for them than at other times. If for instance, one thousand Euros, due to a favorable exchange rate, will purchase twelve hundred Euros in value, then they have a net twenty percent gain and a twenty percent cash incentive to visit the US. In recent years this exchange rate has usually worked in favor of Europeans, but in years past it worked in favor of Americans. For instance, before the Euro became the standard currency of Europe, Italy used lira, Germany the deutsche mark, Switzerland the Swiss franc, Austria the schilling, and France the French franc. In the early 1980's the exchange rate was five French francs to the dollar, two and a half Swiss francs to the dollar, one thousand lira to the dollar, and two and a half schillings to the dollar on average. The German mark was fluctuating, anywhere from 1.7 marks to the dollar to 2.5 marks to the dollar, so when the dollar was worth 2.5 marks Americans would be ahead to trade in their dollars for marks. When the rate was 1.7 they were better off not spending German marks.

Keeping an eye on exchange rates will always benefit the traveler. Even if you are just crossing the border to visit our neighbors to the North in Canada or the South in Mexico, knowing what the normal value of the other nation's currency is, and planning your trip for when the fluctuation is in your favor will increase spending power.