

use but little gold in our business transactions in this country, its place being taken by legal tender notes and bank notes. These are simply printed contracts issued by the Government and by the banks, redeemable in gold dollars at the will of the holder.

The various monetary standards of the world are explained elsewhere, and this brief reference is made to them to emphasize the fact that the first and most important thing to learn about exchange is that the foundation of all exchange transactions is based on the *fine gold contents of the different coins chosen as monetary units*.

TRANSFER OF FUNDS

3. Transfer of Funds.—The next important factor to consider in exchange operations is the expense of transferring gold from one point to another. This consists of:

1. Carriage.
2. Interest on the amount while in transit.
3. Risk.

The very general use of bills of exchange as a medium for transferring funds has caused this factor of expense to be more or less lost sight of, except when conditions call for the actual shipment of gold. It is, however, latent in every exchange transaction, though it may be modified or even offset by other factors such as the law of supply and demand, the balance of trade, competition, etc.

Every school boy in Canada knows that to send money from one part of Canada to another costs something, whether the money itself is shipped direct or a bank draft purchased for the amount, the charge varying according to distance, competition, etc. The operation is simple, and the reason for the charge is obvious. The charge for a similar remittance from a Canadian town to or from a town in the United States is equally comprehensible, the only difference in the conditions being the existence of a boundary line between the two countries. The first transaction is one in **inland exchange**, but the second is an operation in **foreign exchange** just as much as if it had been a remittance to

gold, we add one cent's worth of gold, or .2322 grains, to 113.0016 (the weight of fine gold in the sovereign), and get 113.2338 grains, which, divided by 23.22 grains, gives us \$4.87656, or one cent over par.

If 4.85 is quoted, or $1\frac{1}{4}$ cents lower than par, we deduct .3870 grains ($.2322 \times 1\frac{1}{4}$) from 113.0016 and obtain 112.6146 grains, which is paid in Toronto in order to deliver 113.0016 grains of pure gold in London. Divide the former by 23.22 and we get \$4.85, the required rate. All exchange quotations will work out on the above basis.