NOTES ON FOREIGN EXCHANGE

CHAPTER I.

INTRODUCTORY

A man ought to know the measures, weights, and monies of all foreign countries, especially where we have trade, and the monies not only by their several denominations but also by their intrinsique values in weight and fineness compared with the standard of the Kingdom, without which he cannot well direct his affairs.—Thomas Mun, "England's Treasure by Foreign Trade." Circ. 1635.

DEFINITION

1. *Definition.*—Before taking up the study of foreign exchange it is advisable to have at least an elementary knowledge of the principles on which exchange is based.

Exchange may be defined as the method or system by which the payment of an obligation in one place is accomplished by the transfer of credit from another. Exchange operations therefore are based on intercancellations of indebtedness, thus discharging obligations without the transference of actual money; i.e., gold or its equivalent.

Exchange is generally considered under two headings, **inland** or domestic and **foreign exchange.** The former, however, is so generally understood and so simple in its operation that it is seldom or never referred to in text books on exchange except incidentally. This is a mistake, as it has a tendency to create an impression that foreign exchange itself is a complex and highly technical subject. Such is not the case. The basic principles governing inland and foreign exchange are the same, and there is nothing mysterious or difficult in either, the operations in both being based on the **weight** and **fineness** (or degree of purity) of the **gold** in the monetary units of the countries involved. There are of course certain operations in international exchange which call for a highly specialized knowledge, not only of exchange, but also of economics and finance. These transactions, however, stand in a class by themselves and need not be considered here.