THE EXCHANGE RATE

III.—What Controls It?

IN No. II. of this series we explained why foreign dollars in a banker's hands are merely an evidence of indebtedness, a commodity to be bought or sold.

In order to make use of the credit these represent, he must first exchange them for the currency of his own country and this he does by sending them to a bank in the country in which they were issued. This means not only the labor of counting and sealing the parcel, but the cost of postage and the premium for insuring it against loss on the way.

The Bank to which he sends it must either remit payment for the foreign dollars in gold (the intrinsic value of pure gold being equal in all countries) paying express charges and insurance on the parcel, or if the bank has a credit balance in the country from which the foreign dollars came, it may give a cheque against that balance to the sending banker.

It was to avoid this cumbersome, risky and unsatisfactory way of settling international debts by the transfer of gold that the system of Bills of Exchange was brought into use, and we will try to explain that system next week.

THE CANADIAN BANK OF COMMERCE

Capital Paid up $15,000,000
Reserve Fund $15,000,000

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