Exchange is the Rule by which we find how much money of one country is equivalent to a given sum of another country, according to a given Course of Exchange.

By the **Course of Exchange** is meant the *variable* sum of the money of any place which is given in exchange for a *fixed* sum of money of another place.

By the **Par of Exchange** is meant the intrinsic value of the coin of one country as compared with a given fixed sum of money of another.

Arbitration, or **Comparison of Exchanges**, is the method of fixing upon the rate of exchange, called the **Par of Arbitration**, between the first and last of a given number of places, where the course of exchange between the first and second, second and third, &c., of these places is known. It is called **Simple** or **Compound Arbitration**, as three or more places are concerned. (For fuller information on Exchange, see *Advanced Arithmetic*, p. 227, &c.)

By an Act of Parliament passed many years ago, the sovereign was declared to be only equal in value to $4.44, or £9 (sterling) = $40; and this is the value which is almost invariably quoted in mercantile transactions; the premium on this depreciated value of the sovereign which will make it equal to its intrinsic value, is $9\frac{1}{2}$ per cent.

1. A person has to transmit to Britain £450 stg.; the rate of exchange is at 6 per cent. premium, and he is charged $\frac{1}{2}$ per cent. for commission. What will the bill of exchange cost him in our currency?

$$\text{By old statute, } £9=\$40;$$
$$\therefore\ £1=\$\tfrac{40}{9}.$$

Rate of exchange to the buyer is $106+\frac{1}{2}=106\frac{1}{2}$;

$$£1=\$\tfrac{40}{9}\times\frac{106\frac{1}{2}}{100};$$
$$£450=\$\tfrac{40}{9}\times\frac{213}{200}\times 450,$$
$$=\$2130.$$

Hence the bill of exchange costs the buyer $2130.