THE EXCHANGE RATE

II.—What Controls It?

THIS series, published each week, is intended to remove misunderstandings as to the cause of fluctuation in the exchange value of our dollar in other countries.

When the demand for any commodity is greater than the supply, the price of that article is sure to rise.

A foreign dollar is a commodity in Canada, that is something to be bought or sold and not current money, and similarly the Canadian dollar is a commodity in a foreign country and not current money there.

Their value (or rather their price in the local current money) is therefore governed by the law of supply and demand.

The reason foreign dollars are commodities is that they are not "legal tender" outside their own country.

You would not like a debt to you to be paid in German marks or French francs because of the difficulty you might have in converting them into your own currency. At border points in the United States, our immediate neighbor, where exchanging the two currencies is a simple matter, Canadian money is now generally accepted, but elsewhere in that country it is taken reluctantly.

To protect their peoples all Governments provide that creditors may refuse payment of amounts due them unless made in certain specified currencies and the currencies so authorized are called "legal tender."

The banker who receives "foreign dollars" cannot therefore pay them out over the counter so they are not money to him, but only securities, until he can exchange them for currency of his own country.

Next week in No. III of this series we will explain the method of making this exchange.

THE CANADIAN BANK OF COMMERCE

Capital Paid up $15,000,000

Reserve Fund $15,000,000

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