



Converting Currency

As U.S. trade with other countries increases, so do our choices about what we can buy. In fact, as consumers we have come to depend on other countries for many of the products we purchase. If you check your clothing labels, food cartons, or toy wrappers, you will likely find that much of what you buy is imported.

U.S. dollars. But, somewhere in the purchasing process, U.S. dollars must be exchanged for another country's currency. For example, pesos in Mexico, pounds in England, yen in Japan, and the euro in many European countries.

Read the following story with your children, and discuss how money is exchanged around the world.

Dear Parent/Guardian:

Thank you for downloading this Financial Literacy Feature. We hope the information and activities offered will be helpful in strengthening your family's financial literacy skills.

When goods are bought from other countries, we pay for them here in

Activity

As Isabel and her sister, Olivia, prepared to visit their grandmother in Italy, they made a list of the things they must do before their departure:

- Get passports.
- Make airline reservations.
- Arrange transportation from airport in Rome to Grandma's village.
- Buy luggage and ID tags.

"I think that's everything, Olivia," Isabel reported. (Continued on Page 2.)



“What about money?” asked Olivia, “Don’t we need to use Italian money when we’re there? Should we get some before we leave home?”

“I think we can exchange our dollars for Italian money when we get there,” replied Isabel. “Most of the shops and cabs near the airport will probably take U.S. dollars.”

The sisters were right about some things, but not every thing. They most likely can use U.S. dollars in stores near the airport, but once they get away from Rome and closer to their grandmother’s tiny village, they will need currency that is accepted for Italian goods and services.

Until 2002, Italy’s currency was the lira, but today, Italy and 21 other countries use the euro, which has become one of the most powerful currencies among more than 320 million Europeans.

To exchange dollars for euros (or vice versa), the sisters will have to know the current exchange rate, which can change daily depending on supply and demand. If a lot of people want to buy goods made in the United States, the demand for dollars increases and the dollar appreciates in value. When the dollar appreciates compared to the euro, the euro depreciates in value, because it takes more euros to buy U.S. dollars.

U.S. Dollars to 1 Euro

August 27, 2010 - February 14, 2010



The chart on the next page shows the dollar/euro conversion on six dates beginning November 2009. Calculate the conversions of dollars and euros, and record them in the blank spaces.

Date	Number of euro	Value in dollars		Number of euro	Value in dollars
Nov. 16, 2009	1	\$1.51		10	
Dec/ 22, 2009	1	\$1.43		17	
Jan. 27, 2010	1	\$1.37		185	
Mar. 22, 2010	1	\$1.31			\$100.00
May 6, 2010	1	\$1.26			\$550.00

1. Between November, 2009, and March, 2010, did the dollar appreciate or depreciate in value compared to the euro?
2. If a camera in Italy cost 500 euro in November, how much would it cost in U.S. dollars?
3. If the same camera was priced at 500 euro in May, how much would it cost in U.S. dollars?
4. Has the value of the euro appreciated or depreciated compared to the dollar between November and May?
5. Experienced travelers often check the exchange rate between the dollar and the euro before traveling to Europe. They may even change their travel plans if the dollar has depreciated significantly. Can you see why?
6. When big companies buy millions of dollars' worth of goods or services from other countries, the exchange rate is an important part of their buying decision. Why?
7. Most financial experts suggest using an Automatic Teller Machine (ATM) when exchanging currency in a foreign country. Isabel and Olivia might be charged a small fee, but they'll get a better exchange rate at an ATM than at most currency exchange offices. If the fee is \$3 per transaction, would it be wiser for them to get \$5 or \$50 worth of euros at the ATM? Why?

1. Appreciate. The dollar is worth more; it takes more euros to buy each dollar.
 2. $\$1.51 \times 500 = \755
 3. $\$1.26 \times 500 = \630
 4. Depreciated. It is worth less.
 5. Shopping in the foreign country will be worth less and buy less on a small scale, business dollars will buy less on a much bigger scale. For example, $\$100,000$ might have bought a million plastic bottles last month; this month, with a depreciated dollar, it will buy only 900,000 bottles.
 6. Just as consumers' dollars will be worth less and buy less on a small scale, business dollars will buy less on a much bigger scale. For example, $\$100,000$ might have bought a million plastic bottles last month; this month, with a depreciated dollar, it will buy only 900,000 bottles.
 7. It is best to make a few large withdrawals than many small ones, because ATM fees are assessed per transaction. If the fee is \$3 per transaction, and you withdraw \$10 three times, you are charged \$9; if you withdraw \$30 at one time, the fee is only \$3.

Date	Number of euro	Value in dollars	Number of euro	Value in dollars
Nov. 16, 2009	1	\$1.51	10	\$15.10
Dec/ 22, 2009	1	\$1.43	17	\$24.31
Jan. 27, 2010	1	\$1.37	185	\$253.45
Mar. 22, 2010	1	\$1.31		\$76.34
May 6, 2010	1	\$1.26		\$436.51
				\$550.00

Answers:



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