

## Topic 1(g) Currencies

### What is a currency?

A **currency** is a unit of money used by all the people within a country to buy and sell goods and services, to save and to borrow. It is the money that circulates among the people in that country and it measures the value of everything that they earn and own. Each country's currency has a different name, symbol and value.



In the UK we pay for goods in pounds and pence.

In the UK, our currency is called the **pound** (and sometimes **sterling**). The pound is divided into 100 pence. We measure our income and our wealth in pounds.



### The history of the pound



The name 'pound' comes from the value of a pound-weight of silver. The symbol £ is an old-fashioned letter L, which stands for *libra*: this was the old Roman pound. We also call our currency **sterling** and this is an old word used by people about silver, which was 'of standard value'. So 'the pound sterling' meant a pound in weight of silver that was genuine and of good quality. King Henry II introduced sterling as the English currency in 1158.



### Currencies in other countries

If you live in the UK, you earn your income in pounds and you spend pounds in the shops. All money transactions in the UK are in pounds and the pound is the official currency of the country. If you go to another country, you can't spend your pounds there because other countries have different currencies. Pounds are not usually accepted so you have to buy the currency of that country before you can go to the shops or cafés. The British pound is a foreign currency for people who live in other countries as they have their own different currencies. The symbol for the British pound in lists of foreign currencies is **GBP**.

## The euro



**A selection of euro notes and coins.** The euro is the currency of 13 European countries, which together make up the eurozone.

large cities – for example, some branches of Marks & Spencer accept euros. This is because, even though the UK is not a member of the eurozone and does not use the euro as its currency, it is a member of the European Union. This means we have close links with other European countries and there is a lot of travel and trade between us. Many people come to visit the UK from eurozone countries – shops in cosmopolitan areas want to attract these visitors into spending their money, so their currency is accepted.

## The US dollar

The currency in the United States of America is the **US dollar (USD)**. The sign for a dollar is \$. A lot of other countries, e.g. Australia, Canada, Jamaica and Singapore, use the name ‘dollar’ for their currency, but they are all different currencies, so you have to be careful when you talk about dollars and describe which dollar you mean.

### Did you know?

The name dollar comes from a German word ‘thaler’ which was short for Joachimsthaler, a coin from the silver-mines in Joachimsthal in Bohemia. The dollar sign \$ is thought to have originated from the old Mexican peso, which was written as P\$. People started to write the S over the P and in the end the round part of the P disappeared, leaving only the vertical line going through the S.

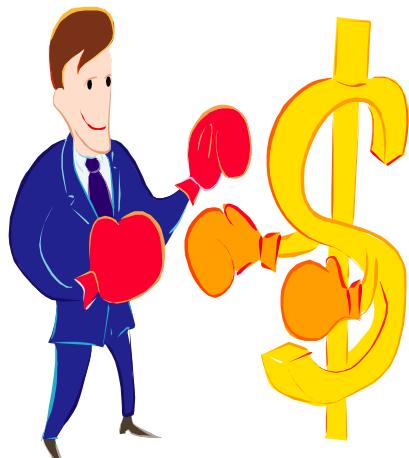


The \$20 bill has the image of the 7th US President Andrew Jackson on one side and the White House on the reverse.

The US dollar is an **international currency**. It is the legal tender currency within the United States but often people in other countries are also happy to accept US dollars. For example, if you take US dollars with you when you go to a poor country,

most people will accept them from you in payment. This is because the US dollar is a strong currency – we say it is a **hard currency**. This means that it is very acceptable across the world and that it keeps its value.

A currency is as strong as the economy of the country it comes from. The US dollar comes from a rich and powerful nation and so it is seen as being a valuable currency. People from other countries will accept it in payment because they know that other people will accept it from them in turn. Because it is the currency of a rich country, it is desirable and so it keeps its worth. This is especially true in a poor country where the value of the local currency is weak and may be falling – this is known as a **soft currency**. The US dollar is also used for trade in particular goods, e.g. oil is always traded in US dollars.



The dollar is a strong currency that people trust will hold its value as the USA is a rich and powerful nation.

## Using money in different countries

When you go to another country, you have to find out what the currency used there is. There are three main ways of making sure that you will have the local currency to spend when you arrive:

- buy notes and coins in that currency;
- buy **travellers' cheques**;
- use a **debit card** or a **credit card**.



Banks advise you to take a '**mixed purse**', i.e. to have a selection of cash, travellers' cheques and a debit or credit card, if you have one.

### Buying cash

You can buy notes and coins in foreign currencies, either in the UK before you go, or you can wait until you arrive. You pay with pounds and receive the currency you need. You can buy most major foreign currencies at a bank or at a main post office. Some small bank branches do not hold stocks of currencies so you might have to order them beforehand, but larger branches have major currencies available. It's nice to get hold of some notes and coins before you go, so you can get used to the different look of the money and feel that you're on your way! Holding cash is very flexible because you can spend it anywhere but it's not safe to carry too much around at once.

## Buying travellers' cheques

You can buy special cheques, either in pounds or in a currency like the euro or the US dollar. They are pieces of paper that are worth specific given amounts, e.g. £20, £50 or £100. They are issued in your name and each cheque has an individual serial number. When you buy the cheques, you sign them all and you are given a list of the numbers of each one. Once you have arrived at your destination, you can exchange them at a bank or at your hotel for the local currency equivalent of the value of each cheque. You are asked to sign the cheque again and the bank clerk compares the two signatures you have given – this is to safeguard against anyone else trying to cash your cheques. Although they are not as flexible as holding actual cash that you can spend anywhere, travellers' cheques are safer because, if you lose them or they are stolen, you can report the numbers of the missing cheques and they will be cancelled. You can then be issued with new cheques and you do not lose your money. If you don't use all your cheques, you can pay them back into your bank account when you come home or you can change them into pounds.

## Using a debit card or a credit card



A debit card is available only to someone who has a bank account (it acts like an electronic cheque) and a credit card can be issued only to someone over 18 who has passed credit checks. Once you have one of these cards, you can use them abroad to get money out of a cash machine by keying in your **PIN** (Personal Identification Number). You can also use debit and credit cards in shops and restaurants to pay for goods. **Visa** and **Mastercard** are the two main types of card that are accepted worldwide. These cards are useful but not everyone has them, particularly younger people. If you have a card, it is a convenient way of shopping and getting cash in the local currency. However, it can work out more expensive and it can also be tempting to spend more than you can afford.

Most banks charge you a **commission** when you buy foreign currencies or travellers' cheques. This is a percentage of the value of currency you have bought. So if you buy £100 worth of euros and the bank charges you 1%, you pay an extra £1. Sometimes there is a minimum charge so it's worth buying a higher value to get your money's worth! If you buy currencies or travellers' cheques at a post office, they do not charge you a commission.

There are some countries that do not allow you to buy their currency outside their own borders, so you have to wait until you get there before you can

### Did you know?

All the main banks will sell you foreign currency.

For example, the Royal Bank of Scotland (RBS) can sell you foreign notes in **67 currencies and travellers' cheques in 9 currencies**. You can buy euros and US dollars on demand from a selection of RBS locations. The bank will change any travel money left over from your trip back to sterling at any branch.

convert your pounds. Or you might only be able to buy a limited amount outside the country. In these cases, there are probably restrictions on the amount of the local currency you can take out of the country too. It's not a good idea to break currency laws because there can be heavy fines for anyone caught.

### **Changing cash or travellers' cheques abroad**

When you arrive in a different country, you need to change some money. You can usually do this at the reception desk of the hotel you are staying at but they might not give you the best **exchange rate**. It's usually better to find a bank. Here are the words for 'bank' and 'foreign exchange' in several European languages.

English	Bank	Foreign exchange
French	Banque	Change
German	Bank	Wechsel
Italian	Banco	Cambio
Spanish	Banco	Cambio
Greek	Τράπεζα (Trapeza)	Συνάλλαγμα (Synallagma)

You will see the French name '**Bureau de Change**' all over the world, including the UK, to describe a place where you can change money.



### **Review questions**

1. Why is the British currency called the 'pound'?
2. How many countries use the euro as their legal tender currency?
3. Why do people in poor countries usually accept US dollars in payment?
4. Where can you buy foreign currencies in Britain?
5. Why are travellers' cheques safer than cash? What is the disadvantage of buying travellers' cheques?



### **Case study**

Darren is on holiday with his parents in Greece. It's his first trip abroad and Darren is having some problems with the money. Here is what he thinks.

*'They have funny money here. The notes look like Monopoly money and I'm not sure if I can spend them in the shops. I've found a music shop and I'm going to buy a new CD. I'm hoping they'll take my pounds.'*

Later:

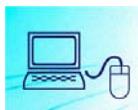
*'They wouldn't take my pounds and I had to ask my Dad for some of those funny euro-things. Anyway, I got my CD but it was very expensive. I know it costs about £15 at home but it was €20 here. I'm not going to buy any more.'*

And even later . . .

*'My Dad explained to me about the €20 so it wasn't so bad after all. He told me that 1 euro is worth less than 1 pound but I'm a bit worried about that because I'm carrying around money that's not worth much. I'll be glad when I get home and go back to real money again.'*

### **Comment on Darren's three statements. What didn't he understand?**

## **Learning activities**



### **Internet**

- Match the currencies to the countries. Use the Internet to find the information. You can find the information on the BBC's website: [www.bbc.co.uk](http://www.bbc.co.uk). Go to the News page, then to the 'Business and Money' section and 'Market data'. Currency values are given in this section and you can find out the names of the currencies of lots of countries.

Lev	Argentina
Peso	Brazil
Rand	Bulgaria
Real	China
Rouble	India
Rupee	Japan
Yen	Poland
Yuan	Russia
Zloty	South Africa

- Go to the website of one of the major banks, e.g. [www.barclays.co.uk](http://www.barclays.co.uk) [www.hsbc.co.uk](http://www.hsbc.co.uk) [www.lloydstsb.com](http://www.lloydstsb.com) [www.rbs.co.uk](http://www.rbs.co.uk)

Find information about the services they provide for people who want to buy foreign currencies. How many currencies can they sell you, how much notice do you have to give and how much commission do they charge?

Can you find out which currencies are hard to get?



## Group

1. Make up a short sketch in your group. A group of friends are in Spain on holiday and trying to get used to the euro. One person plays a Spanish shopkeeper and the rest are the British customers, who are getting into a muddle trying to use euros.
2. Discuss the following statements with your group and tick whether you think they are true or false:

	True	False
The euro is not the legal tender currency in Britain so it's illegal to use it in shops.		
The pound is a larger unit than the euro.		
The pound is a more valuable currency than the euro.		
If you go on holiday to Germany and change your pounds into euros, you have more euros in your pocket than you had pounds, but you also pay more euros for the things you buy.		
The US dollar is an international currency, which means that it is the legal currency in all countries in the world.		



## Individual

1. Have a look at the notes and coins in your pocket or wallet and see what is written on them.
2. If you have been abroad, think of the currencies you must have used. Perhaps you were very young and you can't remember, so ask your parents. If you haven't been abroad, think about which countries you would like to visit the most. What currency do they use?
3. Tim is on holiday in Italy, where the currency is the euro. He has been shopping and seen some items he would like to buy. Their prices are in euros but he wants to know how much they would be in pounds. Can you convert these prices into sterling for Tim ( $\text{£}1 = \text{€}1.44$ )? You will need to use a calculator.
  - Playstation game: €40
  - T-shirt: €15.50
  - Model of the Leaning Tower of Pisa: €4.75
  - Ice-cream: €2



## Key points for Currencies

- The money used by the people of a country is called a currency.
- Different countries have different currencies.
- The British currency is called the pound (£) because it used to be the value of one pound of silver.
- A currency is legal tender within its own country when people use notes and coins.
- The euro (€) is the currency of 13 European Union countries.
- The US dollar (\$) is the currency of the United States of America. It is a hard currency, which means that it is in demand and has a high value.
- The value of a currency depends on the strength of the economy of the country that the currency comes from.
- There are three main ways of buying foreign currencies for a trip to another country: you can buy notes and coins ,or travellers' cheques, or you can use your debit or credit card.
- Holding notes and coins in the currency is more flexible but not so safe.
- Travellers' cheques are safer because they can be cancelled if you lose them, but they cannot be spent everywhere like notes and coins.
- You can have a debit or credit card only if you have a bank account. You can use your card to get the local currency when you are abroad.
- You can buy cash and travellers' cheques at a branch of a bank or a post office. Sometimes you pay commission on the value of your purchase.