Suite 204

CURRENCY A UNIT OF EXCHANGE

The Currency Zone
Currency and National Identity

204.01 THE CURRENCY ZONE

A currency is a unit of exchange, it is a form of money, where money is defined a medium of exchange. A currency zone is a country or region in which a specific currency is the dominant medium of exchange. To facilitate trade between currency zones, there are exchange rates i.e. prices at which currencies can be exchanged against each other. Currencies can be classified as either floating currencies or fixed currencies based on their exchange rate regime. In common usage, currency sometimes refers to only paper money, as in "coins and currency", but this is incorrect. Coins and paper money are both forms of currency.

In most cases, each country has monopoly control over its own currency. Member countries of the European Monetary Union are a notable exception to this rule, as they have ceded control of monetary policy to the European Central Bank.

In cases where a country does have control of its own currency, that control is exercised either by a Central Bank or by a Ministry of Finance. In either case, the institution that has control of monetary policies is referred to as the monetary authority. Monetary authorities have varying degrees of autonomy from the governments that create them. In the United States, the Federal Reserve operates with full independence from the government. It is important to note that a monetary authority is created and supported by its sponsoring government, so independence can be reduced or revoked by the legislative or executive authority that creates it. In almost all Western countries, the monetary authority is largely independent from the government.

204.02 CURRENCY AND NATIONAL IDENTITY

Several countries can use the same name, each for their own currency (e.g. Canadian dollars and US dollars), several countries can use the same currency (e.g. the euro), or a country can declare the currency of another country to be legal tender. For example, Panama and El Salvador have declared US currency to be legal tender, and from 1791-1857, Spanish silver coins were legal tender in the United States. At various times countries have either re-stamped foreign coins, or used currency board issuing one note of currency for each note of a foreign government held, as Ecuador currently does.

- Different nations Currencies relative to each other (some pegged to each other) and International Currencies such as the Euro, which is a relatively new phenomena in history, which required an upheaval in European Accounting that was as great as the Y2K situation.
- Degree to which one nation's assets are traded by other nations and foreign nationals

    1. Commodities essential to National Security
    2. Financial Instruments such as Treasuries, Gold Reserves.
    3. Real Estate