

11.8: Cross Currency Exchange Rates

If we know the exchange rate between currency one and the dollar and we know the exchange rate between currency two and the dollar, we can get the exchange rate between currency one and two. For example, let us assume that we know the following two exchange rates: 21.99704 pesos/\$ and 0.899054 euros/\$. What is the euro/peso exchange rate?

$$\left(\frac{0.899054 \text{ euros}}{\$1} \right) \left(\frac{\$1}{21.99704 \text{ pesos}} \right) = 0.040872 \text{ euros / peso}$$

Note: One key to converting currencies is to make sure the units in your final answer make sense. If the dollar in the numerator cancels out the dollar in the denominator, we know we are doing it right. Let's walk through another example. Assume that the exchange rates are given as direct quotes \Rightarrow \$0.045461/peso and \$1.112281/euro and I asked for the euro/peso exchange rate. Again, you want to make sure the dollars cancel out and you are left with euros in the numerator and pesos in the denominator so it would be set up as follows:

$$\left(\frac{\$0.045461}{1 \text{ peso}} \right) \left(\frac{1 \text{ euro}}{\$1.112281} \right) = \frac{0.045461 \text{ euros}}{1.112281 \text{ pesos}} = 0.040872 \text{ euros / peso}$$

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