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Under the circumstances, therefore, the exchange rate between any two currencies is determined by their mint parity, that is, by the ratio of their gold equivalents. This happens because under international gold standard, “each national currency is convertible into gold at a fixed rate and therefore into another currency at a fixed rate”. Actual rate of exchange can deviate from the mint parity only by what is termed the “gold points”, that is, the cost of sending gold from one country to the other. A Numerical Example. Let us assume that both USA and India are on gold standard.

Further, let one dollar be equal to 80mg of gold, and let one rupee be equal to 2mg of gold. Then, their mint parity is $\$ 1 = \text{Rs. } 40$ (or $\text{Re. } 1 = \$0, 025$). This would also be the exchange rate between the two currencies. However, actual rate could fluctuate around it within gold points (that is, within the upper and lower limits as determined by the cost of sending gold from one country to the other).

Thus, let the cost of shipping gold worth one dollar from USA to India (or from India to USA) be one per cent (that is, 1% of the mint parity), then Rs. 40 would sell between $\$0. 99$ and $\$ 1. 01$; which is to say that exchanged rate of Re. 1 would vary between $\$0.$

02475 and $\$0. 02525$; or exchange-rate of $\$1$ would vary between Rs. 40. 04 and Rs. 39.

96. If in the foreign exchange market, one rupee is able to fetch less than $\$0. 02475$, then it will pay dealers to buy gold from the Indian monetary authorities by selling rupees to them, send this gold to USA and buy dollars

horn the US monetary authorities with it, and buy back Indian rupees in the exchange market.

This process would increase the supply of rupees and demand for dollars in the exchange market, and bring rate of exchange back to the mint parity. In the same manner, exchange rate reverts back to mint parity if it moves to the other side. The exchange rate beyond which gold starts moving from India into USA is called the “ gold export point” for Indian rupee and “ gold import point” for the US dollar. Similarly, the exchange rate beyond which gold starts moving from USA to India is the “ gold export point” for US dollar and “ gold import point” for the Indian rupee.