We fall in the dollar-price of rupees (less

We should also include inflow of funds in the form of bank deposits, receipts of profits and dividends from abroad, interest on our loans to foreigners and repayment of these loans, and similar other items.

An important thing to note is that most of these inflows are expected to be responsive (in varying degrees) to changes in rate of exchange of the rupee. That way, they collectively determine the location and slope of the demand curve for rupees in the foreign exchange market. It is claimed that the demand for rupees and their dollar-price are inversely related, giving us a negatively sloped demand curve for rupees. It means that if there is a fall in the dollar-price of rupees (less dollars per given amount of rupees, or more rupees per given amount of dollars), then more rupees can be had by spending a given sum of dollars. This makes Indian goods cheaper. The foreigners are therefore induced to buy more of Indian goods, travel more in India, and so on. Similarly, all payments made to foreigners generate a supply of rupees (and therefore, a demand for dollars) in the foreign exchange market.

Dollars are needed by us to pay for our imports of goods and services, to service our foreign debt and to pay for our travel abroad. We also need dollars for other payments abroad, such as, repatriation of profits and dividends by foreigners, to make foreign investments, to deposit money with banks outside India; and to give funds in gifts, charities and loans to foreigners, and so on. It is noteworthy that most of the outflows are expected to be responsive (in varying degrees) to changes in the exchange rate, such that the supply of rupees and their dollar-price are positively related, yielding a positively sloped supply curve. For example, an increase in the dollar-price of rupees means that the Indians can buy more dollars by spending a given sum of rupees. This induces the Indians to buy more dollars and spend them abroad.