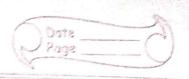
Name - Sagar Grupta Roll No.: - 34 mc 21107



Dus-4 Discuss in details about exchange rate and its determination.

Ans-4 In a liberalised and globalised world,
Various countries employ different methods
to fix their Currency's exchange rotes.

The determination of the exchange rate
in a free market is a nation's private
policy.

Despite a globalised would with free and fair trade agrument, there is no singal and universal currency. It is stambling black for all nations which are engaged in buying and selling goods and services. Exchange rates were introduced in the Second half of the 20th- Century post the Second

\* Exchange rate regime! -

Since each Country is free to determine its
Coursency exchange policy, there are several
different sugines of exchange states. Contributes
with open markels like USA are prone
to have an exchange state that is free
and combound, on the other hand, closeted
economies like thing have tight control
over exchange states.

Between those polar apposites are hybrid legimes where the exchange rates may be harmed on accassion by nation's Crown-ment and Central Bank. India follows hybrid ougine,

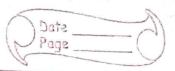
It is determined by following Exchange rates:

1). Floating Exchange state: - A floating states is also known as fluctuating our flexible exchange sugina. It is determined only by prevailing market forces. Any Conversey which is dependent on a floating sugine is also called a floating Coverncy. One good example of a floating exchange coverncy is the US dollar.

Many economists tend
to Side with floating exchange rates.

They feel that the market should determine a Currency's Value and free-morket
forces should not be manipulated.

For example, if the prices of crude oil go up;
the prices of USDs tend to fall. There
is an incurse sulation between twee
prices.

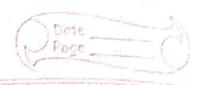


Brince, oil perice of vary daily, the USD value

2). Fixed exchange states: - This is Sometimes Called System because the Growingments tend to keep a tight leash on exchange states. In these sugimes, the currency value is fixed, or peggad, against certain foreign Currencies—either individually on a bastet—or against its survives of gold and freeign Currencies.

Perhaps the most famous example of a fixed exchange Jugime 1's China. In this sugime, mortest forces are not soley Julied upon to fix exchange dates. Instead, the Country's Central Bantes will sell on buy greserus to set exchange dates when forex markets are fluctuating widely.

3). Pegged Float Exchange Rate: - This system includes 3 different and hybrid sugiones. Foreign exchange notes ou determined mostly by existing market forces; but brownments and Central Bants and Step in to throthe their Curouncy's exchange grates.



## The 3 types ove:

- · Crawling Bands: Here, the Centeral Bank

  of a Country will purnity

  fluctuations till a Specific orange, which

  is usually pre-determined. Once that

  band is breached, the Concerned authorities

  will step im.
- · Crawling Pegs: Under this System, the

  Central Bank will allow

  gradual appreciation or depreciation of its

  Covering on the international mortist.

  If those are any market himsertainsties,

  this sugime will allow the currency to

  'glide'.
- Horizontally pegged Bands: It is Some what Similian to Crawling Bands. However, the Covering 1's allowed by Central Bants to fluctuate much more fruly provided the exchange grate does not breach 1. of it's coverency's gross