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After our first meeting, I delved into how the exchange rate is determined in the market. I started by understanding the basic concepts of demand and supply of foreign currency and gradually explored how these forces interact in an open economy. I learned that demand for foreign exchange arises when Indian residents:

- Import goods and services
- Buy assets abroad (like shares or property),
- Or make foreign transfers (such as remittances or aid).

On the other hand, supply of foreign exchange comes in when:

- Foreigners purchase Indian goods and services (exports),
- Or when foreign investments flow into the country.

I also explored the types of exchange rate systems:

1. Flexible Exchange Rate:

The exchange rate is determined entirely by market forces that is demand and supply.There is no intervention by the central bank. For instance:- If Indians import electronics from the U.S., the demand for USD increases.If Americans buy Indian textiles, they need INR, so the supply of USD increases.

2. Fixed Exchange Rate:

Here, the government or the central bank (like the RBI) fixes the exchange rate at a certain level, say 1 USD = ₹80. If demand for USD rises (e.g., due to higher imports), the dollar would normally appreciate. But the RBI steps in to sell USD from its reserves to keep the exchange rate fixed. If there's too much USD in the market (e.g., due to exports), the RBI buys excess USD to prevent depreciation of the dollar. This led me to understand why and when the government intervenes in the foreign exchange market:

1. Excess Demand for Foreign Currency (USD): More people are trying to buy dollars (for travel, imports, investment).The RBI may sell dollars from its reserves to prevent the dollar from becoming too expensive.

2. Excess Supply of Foreign Currency: More dollars are entering the economy (due to exports, FDI, etc.). The RBI may buy the excess dollars to prevent the rupee from

appreciating too much.

Overall, this learning helped me see how the foreign exchange market is not just about numbers. It's deeply connected with trade patterns, investment flows, and even policy decisions. I'm looking forward to learning more about how these concepts play out in real economic scenarios