

Why do us dollar have higher value than Indian rupees, how are their exchange rates determined?

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Value of everything May it be of commodities or currency are almost entirely decided by their demand and supply in market.

Keeping supply constant if the demand of item increases then the value of that item also increases because more people are now willing to take that item, so buyers compete with buyers and therefore bids price high. Conversely if the demand of item decreases then number of buyers willing to buy that item decreases so sellers compete among themselves and thereby brings down the price of item.

Similarly if supply changes keeping demand constant then for increase in supply price of item decreases whereas for decrease in supply price increases.

And for change in supply and demand both together price is decided by one whose change is more prominent.

Same applies even for currencies. Systems that determines exchange rates are broadly categorized into floating exchange rates and fixed exchange rates .In floating exchange system the value of currency are entirely depended by market forces of supply and demand without government intervention whereas in fixed exchange system government determines rates and manipulates currency in circulation.

Now Almost every country keeps us dollar in their foreign reserves and most of the international transaction involves dollar so because of this comparatively high demand of dollar then its supply makes dollar stronger and valuable then our currency.