BlockChain

A currency gets value because:

1. **People trust it.**
2. **Other people are willing to accept it.**
3. **It is limited in supply.**
4. **It is backed by something (not always physical).**

Types of Currency Values

1. Market-Based Value (Floating Rate)

This is determined by supply and demand in the global currency markets.

📉 **If more people want to sell INR and buy USD:**

- **INR falls in value, USD becomes expensive.**

📈 **If more people want INR (e.g., to invest in India):**

- **INR rises in value, USD becomes cheaper.**

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2. Government Controlled (Fixed or Managed Rate)

Some countries peg their currency to the USD or a basket of currencies.

- **Example: UAE Dirham is fixed around 3.67 per USD.**

- **Central bank keeps buying/selling currency to maintain that value.**

Factor	Why It Matters
High interest rates	Foreigners invest in your country to earn more returns.
Strong exports	Other countries buy your goods → demand for your currency rises.
Stable government	Investors trust your economy and currency.
Low inflation	Currency retains purchasing power over time.
Foreign Direct Investment (FDI)	Companies need your currency to build factories, etc.

Factor	Why It Hurts
High inflation	Your currency buys less → people lose trust.

Political instability	Risk of policy changes, chaos → foreign investors pull out.
Trade deficit	You import more than you export → more local currency flows out.
Central bank prints more money	Increases supply → lowers value.

How Does India (or Anyone) Buy US Dollars?

1: Forex
2: RBI

- **RBI may sell USD from its reserve to banks to meet demand.**
- **If RBI sells too much, the USD reserves go down.**
- **If RBI buys USD, it increases reserves, and weakens the Rupee (to support exports).**

🔄 Where Do the Dollars Come From?

India earns USD through:

1. **Exports – Selling goods/services to the USA**
2. **Foreign Direct Investment (FDI) – When US companies invest in Indian startups or factories.**
3. **Remittances – Indians working abroad send money back home.**
4. **Tourism – Foreigners visiting India exchange their dollars.**

Need of Global Currency—>

Problem 1: Exchange Rate Volatility

- **If ₹ becomes weak or strong quickly, businesses lose money.**
- **Constant fluctuations create uncertainty in trade & investments.**

Problem 2: Trade Imbalance & Currency Wars

- **Countries like China or the US are accused of manipulating their currency to benefit exports.**
- **This leads to currency wars devaluing intentionally to stay competitive.**

IPL example: Auction was used to be in US dollar—> Indian rupees

China Devalues their Money….

How Dollar become Global Currency

1: Pound was global currency

2: THey were destroyed in WW2

3: US was contributing to global gdp by 50% and backup of 70% gold

4: 44 country signed the deal

5: Vietnam war, they printed lot of money

6: Saudi arabia backed us dollar with oil

7: Lehman brother crisis($600+ billion)

8: Bernie Madoff(65 billion)

1 dollar == 1 rupee

1. Trade & Exports Collapse

- **Exports Become Very Expensive**
 Indian goods priced in rupees would suddenly cost the same in dollars. A ₹100 shirt now costs US $100—up from about US $1.20–1.30 at current rates—making Indian exports uncompetitive on global markets.

- **Export Volumes Plummet**
 Sectors like textiles, leather, gems & jewelry, and IT services (which rely on price advantage) would see huge order cancellations or shifts to cheaper-producing countries.

2. Imports Become Dirt Cheap

- **Consumer Goods & Fuel**
 Everything you buy from abroad—smartphones, electronics, oil, machinery—would be dramatically cheaper. Gas prices, airline tickets, even imported medicines could fall to a fraction of today's cost.

- **Domestic Manufacturers Suffer**
 Local producers competing with imports (e.g., white goods, automobiles) would struggle to stay in business against rock-bottom import prices.