

The External Value Of The Indian Rupee
AND
Its Impact On Economic Growth

THESIS SUBMITTED TO
KASHI VIDYAPEETH, VARANASI

FOR THE AWARD OF DEGREE
OF
Doctor of Philosophy
IN
Economics

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To
The Registrar
Kashi Vidyapeeth
VARANASI

Sir,

I have great pleasure in forwarding the thesis entitled "The External Value of The Indian Rupee & Its Impact on Economic Growth" submitted by Shri Sushil Kishore Srivastava, for the award of the Degree of Doctor of Philosophy in "Economics" from Kashi Vidyapeeth Varanasi. The present work has been carried out under the supervision of Dr. Vrajendra Kishore Agrawal and is a bonafide original research work of Mr.Srivastava.

Dr. D. N. Chaturvedi
Dr. (D.N.CHATURVEDI)

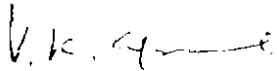
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To
The Registrar
Kashi Vidyapeeth
VARANASI

Sir,

Certified that Sri Sushil Mishra Srivastava has complete his research work on problem " The External Value of The Indian Rupee and Its Impact on Economic Growth " under my supervision and guidance. The thesis to be submitted for the Degree of Doctor of Philosophy is his own original work.



Dr. (V.K. AGRAWAL)
SUPERVISOR
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**Dedicated
to
My Parents**

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P R E F A C E

No doubt, there have been changes in the external value of Rupee during the last about fifty years particularly since the dawn of independence. But the change in thinking itself behind these changes has been more pronounced. In 1925-26 a great controversy arose regarding the fixation of the exchange rate of the Indian Rupee either at 1s.6d (18 d) or 1s.4d (16 d). Arguments and counter arguments were advanced for and against both. But there was unanimity of opinion that there should be a fixed and stable exchange rate. Since recent past however, our exchange rate policy has undergone a sea-change for it believes now in managing the exchange rate in the light of situations as emerging in the internal and external economic environment.

The current research project has been inspired by a search for an answer to the curiosity of why of this change. It, therefore, investigates into the causes and analyses the impact of the changes in external value of the Rupee during the last fifty years on the economy of the country.

The exchange rate affects not only imports and exports, but virtually all sectors and aspects of the economy directly or indirectly ~~so much~~ so that it creates even psychological effects of far reaching dimensions. Some of these effects are so subtle as these do not admit of concrete analysis. The remaining rather more objective and important factors and effects can certainly be gone into and studied. The thesis in hand endeavours to analyse the cause of the changes in our exchange rate and also their impact on our economy showing at the same time the relevance or otherwise thereof. Such a study will enable us to judge the desirability or non-desirability

of developments in the International Monetary System and thereby taking appropriate measures in furthering the cause of our economy, and also defending it against the onslaughts made on it by the International Monetary System. It is of course, true that there are apparent clashes in the interests of different countries causing divisions of the world into various currency blocs; each bloc trying to float and pursue monetary policies oriented to its own partisan interest.

Exchange rate-manipulations have been used as a weapon for grabbing of international assets and resources in rather a competitive manner. This study unravels the techniques, ways and means employed in such grabbing. Attempts, therefore, have also been made herein to find out as to whether it is possible to reorder the international monetary system in such a fashion that the prevailing practice of distrust and conflict is replaced by mutual cooperation and justifiable sharing of prosperity amongst the nations of world.

The thesis contains nine chapters. The first chapter deals with the theoretical analysis regarding exchange rate in which theories of exchange rate and variations in it have been analysed in detail. The second chapter is concerned with effects of exchange rate variations mainly on production, employment, balance of trade and balance of payments etc. It also deals with the technique of exchange rate manipulation and methods of exchange control. The third chapter makes a historical review of the external value of the Rupee upto 1951. In the fourth chapter the external value of the Indian Rupee during the plan period has been dealt with. The fifth chapter bearing the title 'Determinants of the value of the Rupee analyses the various factors which go a long way

to determine the value of the Indian Rupee. In the sixth chapter a study has been made of the changes in the external value of the Rupee. Consequences of such changes have also been incorporated in this chapter. The seventh chapter deals with the changes in the external value of the Rupee in terms of some important currencies of the world. The aim of the Chapter VIII is to deal with the desirability and consequences of the stabilization of the external value of the Rupee. And the chapter ninth ends with summary and conclusions. (Notes, References and Appendix relating to ^{each} chapter are given immediately at the end of it.)

It is a matter of great pleasure for me to acknowledge and express my profound sense of gratitude to Dr. V.K. Agrawal, Economics Department, Kashi Vidyapeeth, Varanasi, for his inspiration, learned guidance, supervision and valuable help during the investigation and preparation of this thesis. It has indeed been a privilege for me to work under his guidance.

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Dated: 18 Nov. 1981

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ABBREVIATIONS

- C-20** : The Committee of Twenty: The name by which the Committee of Fund Governors considering the reform of the International Monetary System is usually known.
- E C A F E** : Economic Commission for Asia Far East
- E C O S O C** : Economic & Social Council of the United Nations.
- E E C** : European Economic Community
- E F T A** : European Free Trade Association
- E M A** : European Monetary Agreement
- E P U** : European Payments Union
- G A T T** : General Agreement on Tariffs & Trade
- Group of Ten**: United States of America, United Kingdom, Belgium, Canada, France, West Germany, Italy, Japan, Netherlands & Sweden.
- I B R D** : International Bank for Reconstruction & Development (World Bank)
- I M F** : International Monetary Fund
- I M S** : International Monetary System
- O E C D** : Organisation for Economic Cooperation & Development
- O E E C** : Organisation for European Economic Cooperation
- O P E C** : Organisation of Petroleum Exporting Countries
- R B I** : Reserve Bank of India
- S D R s** : Special Drawing Rights
- U N** : United Nations
- U N C T A D**: United Nations Conference on Trade & Development