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Role of Government in Controlling Currency in the Market

Yash Garg, Ms Madhulika S Khare

Abstract: The role of government in controlling currency in the market has been a topic of discussion for many year. The currency market is an essential aspects of international trade, as it provides a medium for exchange between different countries. The exchanges rates of different currencies fluctuate based on various factors such as economic stability, geopolitical events, and market demand. Governments play a vital role in controlling currency in the market through various measures such as monetary policies, foreign exchange controls, and interventions. This reports aims to examine the different ways in which government scan controls currency in the markets and the effectiveness of these methods. Additionally, we will compare the role of the government in controlling currency in the market in present times with that in ancient India and analyzes the role of governments in controlling currency in the market, including its impact on the global economy and the effectiveness of different measures used.
Keywords: Currency, Global Economic, Ancient India Currency

Introduction

Currency is a vital element of a country's economy. The value of the currency determines the purchasing power of individuals, the cost of import and exports, and ultimately the health of the economy. The currency market is a complex network that operates globally, facilitating the exchange of different Currencies between countries. The values of currencies fluctuates based on various factors, such as economic growth, interest rates, inflation and political stability. The volatility of the currency market has a significant impact on international trade, as it affects the prices of goods and services in different countries. Government have a significant role in controlling the currency in the market to maintain stability and growth. Governments play a crucial role in controlling the currency market to promote international trade. Currency control refers to the use of policy measures by governments to influence the supply and demand for their currency.

Methods of Controlling Currency in the Market

Setting Interest Rates: Central banks can set interest rates to control the demand for currency, By raising interest rates, governments can attract foreign investment and increases the demand for the currency.

Currency Intervention: Governments can intervene in the foreign exchange market by buying or selling their currency. This can be done to maintain the exchange rate of the currency at a particular level or to prevent significant fluctuations.

Capital Controls: Governments can impose capital controls to restrict the flow of capital controls to restrict the flow of capital in and out of the country. This can help prevent currency speculation and maintain stability in the currency market.

Foreign Exchange Reserves: Governments can hold foreign exchange reserves to ensure that they have enough foreign currency to meet their financial obligations. This can help maintain confident in the currency and prevent currency crises.

Effectiveness of Methods

The effectiveness of these methods can vary depending on the circumstances and the government's ability to implement them. Interest rate adjustments can be effectives in attracting foreign investment, but they can also have unintended consequences, such as inflation. Currency intervention can be effectives in maintaining stability in the short term, but it can also lead to a loss of foreign reserves if the intervention is not successful. Capital controls can be effective in preventing capital flight, but they can also limit economic growth And development. Foreign Exchange reserves can help maintain confidence in the currency, but they can also be

costly to maintain.

Comparison with Ancient India

In ancient India, currency control was primarily in the hands of private individuals, with little government intervention. The use of silver and gold coins was prevalent, and the exchanges rates were determines by the market. However, the government did have some control over the currency through the issuance of coins and the regulation of trade.

The Mauryan Empire, which ruled from 321BCE to 185BCE, was one of the earliest empires in India to issue during this period were made of silver, copper, and gold and has inscriptions of the emperor's name and title. These coins were widely used for trade within the empire and with other countries.

During the Gupta Empire, which ruled from 320CE to 550CE, gold coins were the primary form of currency. The coins were minted in large quantities and used for trade throughout the empire. The government also issued copper coins for smaller transactions.

In contrast to present times, the government's role in controlling currency in ancient India was limited. The value of the currency was determines by the market, and the government's role was primarily to issue coins and regulate trade.

Government of India Control Money in Market

The role of governments in controlling currency in the market has been a topic of debate among economists for many years. According to Ghosh et al. (2012), the government's intervention in the currency market can have both positives and negative effects on the economy. On the other hand, it can lead to distortions in the market, creating inefficiencies that can negatively affect economic growth.

One of the most common measures used by governments to control currency in the market is monetary policy. According to Kuttner and Posen (2010), monetary policy involves controlling the money supply and interest rates to influences the exchange rate of a currency. The central bank of a country can use monetary policy to lower interest rates, which can make the currency less attractive to investors, leading to a depreciation in its value.

Foreign exchange controls are another measure used by governments to control currency in the market. These controls involve regulating the flow of foreign currency into and out of a country. According to Chinn and Ito (2014), foreign exchange controls can be used to prevent the depreciations of a currency or to maintain a fixed exchange rate. However, foreign exchange controls can also lead to capital flight, where investors move their money out of country, leading to a decrease in economic growth.

Government intervention in the currency market can also take the form of direct interventions. According to Dominguez and Tesar (2007), direct interventions involve buying or selling a currency in the foreign exchange market to influence its value. This can be done by the central bank of a country or by the government itself. However, direct interventions can be expensive and may not always be effective in the long term.

Financial Crises in the World

- **Tulip Mania (1637):** In spite of the fact that a few students of history contend that this lunacy did not have so much affect on the Dutch economy, and so shouldn't be considered a budgetary emergency, it did coincide with an flare-up of bubonic torment which had a noteworthy affect on the nation. With this in intellect, it is troublesome to tell in case the emergency was accelerated by over – theory or by the widespread.

- **Credit Crisis of 1772:** After a period of quickly extending credit, this emergency begun in March/April in London. Alexander Fordyce, an accomplice in an expansive bank, misplaced a colossal entirety shorting offers of the East India Company and fled to France to maintain a strategic distance from reimbursement. Freeze driven to a run on English banks that cleared out more than 20 huge managing an account houses either bankrupt or halting installments to contributors and lenders. The emergency rapidly spread as well much of Europe. History specialists draw a line from this emergency to the cause of the Boston Tea Party-disagreeable charge enactment within the 13 colonies- and the coming about turmoil that gave birth to the American Insurgency.

- **Stock Crash of 1929:** This crash, beginning on Oct.24, 1929, saw share costs collapse after a period of wild theory and borrowing to purchase offers. It driven to the Incredible Discouragement, which was felt

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around the world for over a dozen a long time. Its social affect kept going distant longer. One trigger of the crash was an exceptional oversupply of product crops, which driven to a soak Decrease in costs. A wide extend of directions and showcase- overseeing instruments were presented as a result of the crash.

- **1973 OPEC Oil Crisis:** OPEC members started an oil embargo in October1973 targeting countries that backed Israel in the Yom Kippur War. By the end of the embargo, a barrel of oil stoodat$12, up from$3. Given that modern economics depend on oil, the higher prices and uncertainty on oil, the higher prices and uncertainty led to the stock market crash of 1973-74, when a bear market persisted from January1973 to December1974 and the Dow Jones Industrial Average lost about 45% of its value.

- **Asian Crisis of 1997-1998:** This emergency begun in July 1997 with the collapse of the Thai baht. Missing outside money, the Thai government was constrained to desert tissues. Dollar peg and let the baht float. The result was a tremendous debasement that spread as well much of East Asia, too hitting Japan, as well as a colossal rise in obligation- to- GDP proportions. In its wake, the emergency driven to superior money related control and supervision.

- **The 2007-2008 Global Financial Crisis:** This monetary emergency was the most exceedingly bad financial fiasco since the Stock Advertise Crash of 1929. It begun with a subprime contract loaning emergency in 2007 and extended into a worldwide keeping money emergency with the disappointment of speculation bank Lehman Brothers in September2008. Gigantic bailouts and other measures implied to constrain the spread of the harm fizzled and the worldwide economy fell into retreat.

- **COVID19 Pandemic:** A global stock market crash began in February 2020. From February 20 until March 23, 2020 the S&P 500 lost over 30% of its value. This was a result of the COVID-19 widespread, which caused far reaching freeze and vulnerability almost long haul of the worldwide economy. Despite being severe and with global reach, markets and national economies rebounded quickly and by early April2020, the S&P500 had began a decisive rise, surpassing its pre- pandemic high in August.

Conclusion

In conclusion, there are various methods that can be used to control currency in the market. These methods include monetary policy, exchange rate policy, and capital controls. The Reserve Bank of India (RBI) is responsible for implanting monetary policy in India, which involves controlling the money supply and interest rates to achieve the desires level of inflation and economic growth. The RBI uses various tools such as repo rates, reverse repo rates, cash reserve ratio, and statutory liquidity ratio to achieve its monetary policy objectives. Monetary policy involves adjusting the interest rates and money supply in the economy to influence the value of the currency. Exchange rate policy involves setting the value of the currency. Exchange rate policy involves setting the values of the currency relative to other currencies through interventions in the foreign exchange market. Capital controls involve limiting the flow of capital in and out of the economy.

Each of these methods has its strengths and weaknesses, and the most effective method depends on the specific circumstances of the economy. Central banks and governments use a combination of these methods to achieve their desired goals, such as price stability, economic growth, and reducing trade imbalances. It is also important to note that currency control measures can have unintended consequences, such as creating inflation, reducing competitiveness, or limited economic freedom. Therefore, policymakers need to carefully consider the cost and benefits of each measure before implementing them. Overall, effectives currency control policies can help promote stability and growth in the economy, but they need to be carefully designed and implemented consequences.

Financial crises have been a recurring phenomenon in the world economy for centuries. These crises can have a devastating impact on individuals, businesses, and entire economies, leading to widespread unemployment, bankruptcies, and economic downturns. Some of the most significant financial crises in modern history include the" Great Depression of the 1930s"; "the Asian financial crisis of 1997"; "the global financial crisis of 2008", and the COVID-19 pandemic- induced recession of 2020. Overall, financial crises are a persistent feature of the global economy, and while they can be difficult to predict and prevent entirely, there are steps that Governments and policymakers can take to minimize their impact and prevent them from occurring in the first place.

Analysis

The effectiveness of government measures in controlling currency in the market varies depending on the economic situation and the measures used. Monetary policy can be an effective tool for controlling currency in the short term. For example, in times of economic recession, a country can lower interest rates to stimulate economic growth, leading to an increase in the demand for the country's currency. However, over reliance on monetary policy can lead to inflation and decreased economic growth in the long term. Foreign exchange controls can be effective in preventing the depreciation of a currency or maintaining a fixed exchange rate. For example, China has implemented strict foreign exchange controls to prevent the depreciation of the Yuan. However, foreign exchange controls can also lead to capital flight, decreasing economic growth and discouraging foreign investment. Direct interventions in the currency market can be expensive and may not always be effectives in the long term.

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