International Journal of Multidisciplinary Research in Arts, Science & Commerce
(IJMRASC) ISSN Online: 2583-018X

Vol. 3(2), June 2023, pp. 09-13

THE LOGIC BEHIND THE ADOPTION OF A REPRESENTATIVE INTERNATIONAL CURRENCY

Sruthipriya Mahesh

Student, Department of Economics

Shrimathi Devkunvar Nanalal Bhatt Vaishnav College for Women

Email: sruthipriyamahesh@gmail.com

ABSTRACT:

This article tries to analyze the use, significance and need to adopt a representative international currency to solve the major macroeconomic problems that transcends across the globe. It also tries to distinguish between representative international currency and a single currency used worldwide. And investigate the geo-political and economic relations that arise out of demand and supply of the same. The equilibrium conditions of demand and supply of international currency are also enquired into.

KEYWORDS: *Forex, International finance, economic theory, monetary theory*.

INTRODUCTION:

It is due to mankind's financial innovations that the world is what it is today. We have evolved from adopting barter systems to do economic transactions to the current international monetary system of exchange rate, where countries buy and sell goods and services through the demand and supply conditions of foreign exchange in the respective economies. While the volume of real-time trading and business transactions have increased significantly, compared to the volume of trading under the gold standard, it has still not reached its pinnacle due to the many factors that threaten the stability and simplicity of transactions, such as economic fluctuations, pandemics, complicated procedures of exchange rate etc.

International Journal of Multidisciplinary Research in Arts, Science & Commerce
(IJMRASC) ISSN Online: 2583-018X

Vol. 3(2), June 2023, pp. 09-13

WHY IS A REPRESENTATIVE INTERNATIONAL CURRENCY REQUIRED?

No economy in this world is free from global economic and political fluctuations. What might affect your neighboring country will affect you too. The global economic structure is not independent of one another. Instead, it is interdependent. It is for this reason that the global financial crisis that took root in America in 2009 spread to the world leading to a massive breakdown of the global economic system and it is for the same reason that the COVID-19 influenza that was born in China in 2020 evolved into a pandemic leading to massive unemployment, slowdown of economic growth, increasing inflation rates across the world. And not to mention, instable exchange rates. This in turn results in massive changes in the nature of business transactions. A lollipop that costed ₹2 yesterday, costs about ₹5 today. It could be due to changes in import prices of candy raw material, it could be due to changes in capital equipment that is used to produce the candy, or it could be the cost of shipping candy raw materials. When all of this already causes a headache to most central bank authorities across the world, the addition headache of having to look into the changes in exchange rates with the countries it has a bilateral or multilateral tie is the final straw.

This pegs the question: Why isn't a single international currency adopted to make things work more efficiently and smoothly? Most economies during such perilous time focus on trying to maintain internal and external balance through changes in government expenditure and changes in exchange rate. Government expenditure, used to control unemployment rates from moving up, require money stock. A part of this money stock comes from the government's own income, that is backed up by foreign reserves and partly from international monetary lending institutions in the form of loans or aids—which is also expected to be paid in terms of foreign currency, most likely the dollar. If the country has foreign currencies that are of not much value, that may have accumulated due to past trade, it is not going to be of much use to the government, who has to pay back its loans or restore its previous income levels that need to be backed up by foreign currency. Thus, the need to have a single internationally-used currency is required. It is important to note that international currency is not a single currency that would be used by the entire globe. It is a representative of national currencies in the global platform. Such a currency could not only allow countries to freely transact with one other without worrying about the worth of their foreign currencies, it could also massively simplify the day-to-day transactions between countries, which increases productivity and economic growth via increase in volume of transactions.

International Journal of Multidisciplinary Research in Arts, Science & Commerce
(IJMRASC) ISSN Online: 2583-018X

Vol. 3(2), June 2023, pp. 09-13

This is not to say that the existing system of business exchanges are to be completely overthrown. Trade between countries will still be decided by the market forces of demand and supply of foreign exchange, quality of products, prices etc. The value of currencies will still be decided by the domestic exchange rates between the two countries. Except, transactions will be done in a single international currency.

For example, let's assume that country A is importing commodity X from country B. The value of the transfer of commodity X would be based on the exchange rate of country A's currency into country B. If the exchange rate is 5 units of country A = 1 unit of country B, then country A will have to transfer 5 units of the international currency to country B, instead of 5 units of the national currency of country A. National currencies will still be in place, but for quicker and more stable global economic conditions, trade takes place in terms of international currency.

Let's take another example. Let's assume that country A granted aid money to country B out of a humanitarian act. Let's further assume that due to a prevailing economic crisis in the world, the currency of country A no longer holds good. Now the money is no longer useful to country B. it cannot use it to service debts or increase government expenditure. If there was an international currency, the quantum of credit would have held good as foreign exchange reserves that would have aided in the servicing of government debt of country B. Thus, an international currency is very useful in bringing economic stability and efficiency into the economy. This non-volatile back up of foreign exchange reserve would further encourage investors and businessmen to invest in businesses of country B, which would allow the economy to revive itself and lead itself into a period of boom and prosperity.

WHO WILL BE THE AUTHORITY TO SUPPLY REPRESENTATIVE INTERNATIONAL CURRENCY?

If an international monetary institution like the IMF was set up constituting of a democratic representation of all countries, it could inject money supply of the international currency based on the contemporary economic trends through a consensus. This could be done through the various lending programmes of the IMF and other global monetary institutions. In this way, there is no dominance of a particular currency or country, which could also effectively reduce geo-political tensions. The allocation of resources, judicial procedures etc. could be done in a similar way to the IMF procedures. Since the world is increasingly going cashless, the international currency could also be digital in nature, further reducing geo-political tensions of the world.

International Journal of Multidisciplinary Research in Arts, Science & Commerce
(IJMRASC) ISSN Online: 2583-018X

Vol. 3(2), June 2023, pp. 09-13

DETERMINATION OF EQUILIBRIUM:

Like any other economic concept, this theory is dependent on the demand and supply of international currency. The quantity of money is represented on the x-axis, while exchange rates are represented on the y-axis. Obviously, demand is a downward sloping curve. Higher the exchange rate, higher the foreign price of domestic goods and consequently lower the demand for international currency. The supply curve is upward sloping because higher the exchange rate, higher the import rates and consequently, higher the supply of money. The demand curve intersects the supply curve at equilibrium point E, where the demand and supply of international currency is equal. It is to be noted that demand and supply of international currency cannot ever be fully equal due to the alternating periods of boom and depression across different countries at the same time. It is only an approximation and an indicator of movements of the international currency.

When exchange rates appreciate due to the many several reasons, demand for international currency exceeds the supply of the same, which indicates that the volume of imports is very high. A global increase in imports implies a global increase in demand for exports too (in other parts of the world). This in turn increases income, output, and employment levels in the minor group of the exporting countries and decreases income, output, and employment levels in the major group of importing countries, indicative of a period of boom and prosperity in a major part across the world.

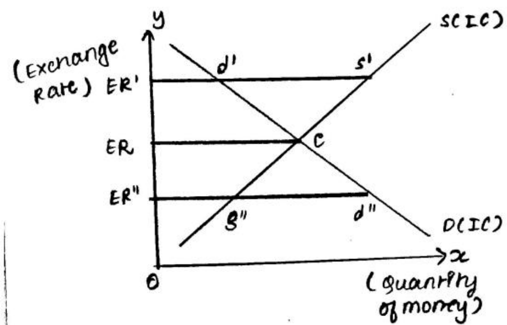
This increase in imports and exports results in the gradual depreciation and appreciation of exchange rates in the respective countries, until the tables reverse resulting in lower income, output and employment levels in the major part of the world, and higher income, output and employment levels in the minor part of the world, thus depreciating ER back to equilibrium.

Likewise, when demand for international currency is lower than the supply of international currency, it indicates that the volume of exports is very high. A global increase in exports imply a global increase in imports too (via increase in income levels). This in turn increases income, output and employment levels in the major group of the exporting countries and decreases income, output and employment levels in the minor group of importing countries. This increase in exports and imports results in the appreciation and depreciation of exchange rates in the respective countries, until the tables reverse resulting in higher income, output, and employment levels in the bigger part of the world, and lower income, output, and employment levels in the bigger part of the world, which appreciates ER back to equilibrium.

International Journal of Multidisciplinary Research in Arts, Science & Commerce
(IJMRASC) ISSN Online: 2583-018X

Vol. 3(2), June 2023, pp. 09-13

Thus it can also be used as an economic indicator of global business cycles. When demand exceeds supply, it indicates general boom and when supply exceeds demand it implies general depression.



CONCLUSION:

Thus, the international currency is a representative of the national currency and is simply a medium of exchange that is allows the world to simplify its complicated business transactions in the real world. It can also be used as an indicator of general global economic trends and allow the international forums to become more stable and efficient thus increasing volume of trade, productivity, and economic growth.