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B.Com Honours

Semester VI

Calicut University

BANKING AND INTERNATIONAL FINANCE

Course Code: COM6EJ303 • Module 3 Notes

Module III: International Exchange System & Balance of Payments

Covers historical exchange rate systems (Gold Standard, Bretton Woods, Managed Float), determinants of exchange rates, Rupee convertibility, and Balance of Payments (BoP) structure & correction of disequilibrium.

Unit 11: International Exchange Rate Systems Evolution

Historical Evolution: Gold Standard (Pre-1914) $ ightarrow$ Bretton Woods Pegged System (1944–1971, USD convertible to gold @ $35/oz) $ ightarrow$ Post-Bretton Woods Floating Exchange Rate Regime under IMF.

Unit 12: Exchange Rate Factors & Rupee Convertibility

Determinants: Inflation differentials (Purchasing Power Parity PPP), Interest rate differentials (Fisher Effect), & trade balances. **Rupee Convertibility:** Full Current Account Convertibility (Art VIII of IMF since 1994); Partial Capital Account Convertibility (Tarapore Committee guidelines).

Unit 13: Balance of Payments (BoP) Structure & Corrections

BoP Structure: Systematic record of all economic transactions between residents of a country and rest of world.
- **Current Account:** Trade balance (Merchandise exports/imports), Invisibles (Services, Transfers, Remittances).
- **Capital Account:** FDI, FPI, Foreign loans (ECBs), & NRI deposits.
Corrective Measures for BoP Deficit: Devaluation, monetary contraction, export subsidies, & import restrictions.

Practical Case Framework 1 (Balance of Payments BoP Components Structural Matrix): Compare BoP account category, sub-account components, transaction nature, and credit/debit rules.

Balance of Payments (BoP) Architecture Table:

BoP Major Account	Sub-Account Components	Economic Nature of Inflows
Current Account	Merchandise Trade, Software Services, Remittances	Real income & consumption transactions
Capital Account	FDI, FPI, External Commercial Borrowings (ECB)	Cross-border financial asset ownership changes
Official Reserve Account	Foreign Currency Assets, Gold, SDRs with IMF	Central bank balancing net BoP surplus/deficit

Practical Case Framework 2 (Historical Exchange Rate Regimes Comparison Matrix): Compare historical regime, time period, anchoring mechanism, and system collapse trigger.

Exchange Rate Systems Evolution Table:

Exchange Rate Regime	Historical Era	Anchoring Mechanism / Rule
Gold Standard System	1870 - 1914	Currencies directly convertible into physical gold
Bretton Woods System	1944 - 1971	Currencies pegged to USD; USD pegged to Gold ($35/oz)
Managed Floating System	1973 - Present	Market supply/demand with central bank intervention