

FOCUS SPOT

What?

Difference between Appreciation and Depreciation of domestic currency.

Why?

Students are not able to make the difference between these two terms while determining the effect of exchange rate on domestic currency.

Impact

Appreciation/Depreciation of a currency is usually relative to the Dollar.

Appreciation = Increase in value

Depreciation = Decrease in value

Appreciation of domestic currency

1. It is a situation of fall in exchange rate
2. Less rupees are needed to buy 1 US dollar
3. CAUSE : Increase in supply of foreign exchange

Depreciation of domestic currency

1. It is a situation of rise in exchange rate
2. More rupees are needed to buy 1 US dollar
3. Cause : Increase in demand of foreign exchange