International Finance
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Lecture - 3
Gold Standard

Good morning, today we will be discussing international monetary system. Here we will discuss the gold standard and second session four we will be discussing about paper currency standard. Let us start with the gold standard. Gold standard if you see the economic history, one of the important topic, one of the important requirements are there exchange of currency because we have different nations, different nations have different trade relations, the trade relation take place through currency, the currency requirements is here gold or any other metals. However, history economic history till nineteenth century gold was important, gold was important, what we call a requirement or important assets for peoples. On that basis of gold the required on the basis of gold the currency system developed and it has been switchover to silver standard after that some other metallic standard and eventually the paper currency standard.

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Gold Standard

- Almost from the dawn of the history gold was considered as the medium of exchange
- Gold was durable, storable, portable and easily divisible.
- The foundation of the gold standard is that a currency's value is supported by some weight in gold.
- Under pure gold standard gold coins were traded freely and their inherent values were considered as their market values.
- Under the pure gold standard system, all participating currencies were convertible based on its gold value.

The question is here why gold is so important? If you, the, you see the history almost from the down of the history gold was considered as the medium of exchange. Why it is so, why it is considered as the medium of exchange because gold was durable. Durable

in the manner that it has a value, storable very easy to store it, portable you can take, you can carry the gold and go to the different market and also easily divisible gold can be divide into minute grams, on that basis of that the minute level of currency can be considered. The foundation of the gold standard is that currency value is supported by some weight of gold. Gold in the form of coin, in the form of bar, in the form of large value coin were circulated were circulated earlier and they were considered as the currency for the different country. There are different kind of gold standard. If you see we have pure gold standard where gold coins were traded freely and their inherent values were considered as their market value.

Gold coins were circulated. One's gold on the basis of the inherent value that is how much gold contained on the in that particular coin, the currency system developed. And since under the pure gold standard system all participating currency were convertible based on the gold value. We get different currency different country design the currency on the basis of gold and gold's were freely traded among the nations and there has no barrier in the movement of gold from one country to another country.

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Gold Standard

- The pure gold standard was used till 1870.
- Under relative gold standard, gold was considered as the currency standard.
- Each currency was convertible into gold as a specified rate.
- Exchange rate between two currencies was determined by their relative convertible rates.

This is this was essential because gold purity of gold and the gold itself is as a currency without the transport, without the free movement of gold you cannot decide the value of the currency or the exchange rate. The pure gold standard was continued till 1870 and they relate as per the pure gold standard currency were just like that barter system. It was

barter system where the product itself converted, product itself exchanged, gold coins were exchanged. However over the years when the gold requirement, when the country expand the economy economies of different countries expand, the gold requirements of gold was could not be fulfilled because on the basis of circulation of currency, the country can expand because liquidity requirement is essential to develop the currency to develop the economy.

Gold, the limited gold was available in the economy in the world level very few mines were there and soon soon soon when the economy economies of different country expanded the requirements of gold filled more and people were (( )), the gold that pure gold standard could not continue. However under the relative gold standard the currency and relative gold standard currency standard also developed. Each currency on the relative gold standard, each currency was converted into gold at a specified rate. The gold, the value gold was freely imported, freely exported and also the conversion the conversion of gold into currency or the conversion of currency into gold fixed by a different country on the basis of the specified rate.

Exchange rate between two currency was determined by the relative convertibility rate. The relative convertibility rate here is meaning that some currency some country may decide that 10 grams of gold is equivalent to 100 rupees, some countries other countries like US suppose decide 10 grams of gold equivalent to 200 hundred dollars. On that basis of that the exchange rate determined between two country US and India. The here the relative gold standard provide some kind of, some kind of freedom to the country because on relative gold standard the value of the requirements of gold was not so much because here gold, the value of the gold is not the, directly linked to the currency. However, indirectly linked to the currency in the sense that the country can decide what should be the amount of gold which can be converted into 100 rupees, 200 rupees or 500 rupees. So, the requirement of gold though it was there, however, liquidity can be generated in the economy on that basis of, on the basis of requirement of the country.

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Mint Par Parity Theory

- Under this system, the currency in use was made of gold or was convertible into gold at a fixed rate.
- The value of the currency unit was defined in terms of certain weight of gold, that is, so many grams of gold to the rupee, the dollar, the pound, etc.
- The rate at which the standard money of the country was convertible into gold was called the *mint price* of gold.
- Official Price of the gold in respective countries was called Mint Price of Gold.
- However, the actual exchange rate between these currencies would vary above or below the mint parity rate by the cost of shipping gold between two countries.

However, the basic the fundamentals of the gold standard it depends the theory the fundamentals of the gold standard depends upon the what is called mint parity theory. The mint parity theory on the basis of that entire metallic standard developed. The mint parity theory, that under this system the currency in use was made of gold or he was convertible into gold at a fixed rate. The value of the currency unit was defined in terms of certain weight of gold that is so many grams of gold equivalent to rupee or dollar or pound or any other currency means here the underlying asset is gold, on that basis the standard or the currency standard developed it, but it may be pure standard, pure gold standard or it may be a relative gold standard.

However the underlying asset on which the currency standard develop was gold. The gold value, the gold was freely imported, freely exported on the basis of demand of gold, the value of the gold also changed that there was a requirement there was a international gold market where the demand and supply of gold decides the value of the gold. However different countries have different countries have different standard for the currency on basis on the basis of the amount of gold or the grams of gold they decide their own currency. The rate at which the standard of money, standard of money of the country was convertible into gold was called mint parity of the mint parity price of the gold. Because the country developed their monetary standard on the basis of amount to gold, the gold, the coin or the gold coin how much gold coin equivalent to the respective currency decided that was decided by the respective country.

In the official price of the gold in respect of in respect of country was called mint price of the gold. The mint price of the gold may different from different country because as I mentioned that underlying asset on which this monetary standard was developed is the gold. However, the actual exchange rate between this currency would vary above or below the mint parity, mint parity because mint parity rate by the cost of shipping of gold between two countries. As I mentioned from the beginning that the basic requirement of the gold standard was there with free trade among country, the free movement of goods and services was there.

There was a free movements of gold from one country to another country and respective country decide only the value of their currency on the basis of the underlying asset that is gold. Whenever there is a gold, whenever gold transported from one country to another country it was actually transported by not transport because the (( )) when there is a export or import take place between two country the exported country, export and import decide on the basis of mint price of the gold. The export item converted into mint price of the gold.

Similarly, imported item converted into mint price of the gold, actually gold was transported from one country to another country. However, however since the gold was converted into in the form of currency the currency in place of gold, it was currency transport from one country to another country. So, the mint price of the gold is the minimum price and shipping from gold from one country to another country depends upon transportation cost. If the mint price of the gold is less than the shipping cost then the, not the gold was, gold will not be transported. However, the currency will be transported.

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Mint Par Parity Theory

- If the official British price of gold was £6 per ounce and of the US price of gold $12 per ounce, they were the mint prices of gold in the respective countries.
- The exchange rate between dollar and pound would be fixed at $12/£6 =2. This rate is called mint parity rate.
- Actual Exchange rate would be different from the Mint Parity Rate.
- Suppose the US has a deficit in its balance of payments with Britain.
- US importers would demand more pounds to pay deficit budget.
- But the shipment of gold involves cost. Suppose the shipping cost of gold from the US to Britain is 5 cents. So the US importers would have to pay $2.05 per £1. If exchange rate would be beyond $2.05 then importers would ship pure gold only.

So, here we have a two different concept mint price of the gold and gold exchange, gold transportation point. So, we have to understand that suppose there is a we discuss this principle in the from a one example if the official British price of the gold was gold was 16 pound per dollar per ounce and the official US price of the gold is 12 per ounce then there will be mint price of gold between US and US and England will be 2 because here the exchange between dollar and pound would be fixed at fixed at 1 pound will be 2 dollar because in official price of the gold in US is higher than the official price of the gold in London. So, the price of price the exchange rate between pound and sterling pound and US dollar depends upon the mint price of the gold.

If the mint price of the gold since the mint price of the gold in US is less US is less than the mint price of the gold in London. So, that exchange rate between exchange rate fixed at 2 the mint price rate that is the mint price rate between US and London. Actual exchange rate would be different from the mint parity rate because the currency here is the dollar and the pound. However, the underlying asset is the gold the on the basis of gold rate the exchange rate take, exchange rate has been taken place.

However, suppose there is US has a deficit in balance of payment with respect to Britain. It means that US need to pay more in the form of dollar to Britain. So, Britain there will be receiver of dollar. However, US has to send dollar because US has deficit balance of payment. Suppose US importer would demand more pound to pay deficit budget, here

the shipment of gold suppose involve shipment of gold involve cost, that cost is the transportation of gold from transportation of gold from US to Britain. Suppose the transportation of gold the shipping charges between US to gold US to Britain is 5 cent. So, the US importer would pay 2.05 dollar per 1 pound sterling because if the, if 2.05 for suppose 1 pound is more than 2.05 05 dollar then US importer would not pay a dollar rather than they transport gold from US to from US to Britain because the transportation cost is 2.05 along with the price of the dollar 2.05. If suppose that the pound sterling is 1 pound sterling would be 2.10 dollar then it is, it is beneficial to beneficial for the US importer to transport gold rather than pound sterling, rather than dollar.

If the exchange rate would be beyond the 2.05 dollar per pound then importer would ship pure gold only. This is called actual exchange rate between US and Britain. The question is here we have two kind of rate what is called as mint parity rate. The mint parity rate actually the value actually the value of gold in two different country. We have actual exchange rate which depends upon mint parity rate along with the, along with the cost of transportation. The cost of transportation is cost of transportation added with the mint parity rate and on that basis that actual exchange rate take place between US and other country.

Here we understand that, here you understand that the value of the gold or the price of the gold is the underlying asset and along with the transportation cost of gold from one country to another country decides the exchange rate between two country.

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Mint Par Parity Theory

- Currencies were convertible in gold. Nations could ship gold among themselves to adjust their "balance of payments."
- As per Mint Theory countries could not have either a trade deficit or trade surplus.
- For example, in a bilateral trade relationship between Australia and Brazil, if Brazil had a trade deficit with Australia, then Brazil could pay Australia gold.
- With more inflow of gold Australia could issue more paper money since it now had a greater supply of gold to support new bills.
- With an increase of paper bills in the Australian economy, inflation, subsequently lead to a drop in exports, because Brazil would not want to buy the more expensive Australian goods.

You have to understand another thing here the mint parity, the mint parity theory determines two things. One is the exchange rate one aspect, second aspect the how the differential price of gold between one country to another country. No doubt gold is international currency international asset, but international level of demand and supply decides the exchange rate. However in different country the rate of gold, the cost of gold or the price of the gold differ on the basis of availability of gold. The availability of gold here is the export import. If the country is export oriented country exporting more than importing then they are the receiver of the gold under the gold standard. If the country is importer import oriented country importing more than exporting the country is a deficit country here the price of the price of the gold will be more. Hence in the, on this basis price of the gold will be more.

On this basis the exchange rate takes place among these two country. Let us understand that there are different concepts in the mint parity theory. One of the important condition is here, the mint parity theory determine not only the exchange rate also automatically correct what is called the balance of payment when balance of payment deficit or surplus. Currency were convertible in gold, nation could save gold among themselves to adjust their balance of payment. Since under the gold standard there is free import export or import of gold. So, gold freely move from one country to another country, the balance of payment automatically corrected under the gold standard. As mint theory, mint theory mentions that either the trade or the deficit in the balance of payment automatically

corrected under the mint theory. For example, suppose we discuss about the bilateral trade between Australia and Brazil.

If Brazil had a trade deficit that is Brazil is importing more from Australia and Australia is exporting more to Brazil than is importing. So, there is a Brazil had a trade deficit with respect to Australia. Under mint parity theory it means that Brazil need to pay more gold more gold to Australia and this this requires that that should be exchange of gold or the exchange of currency dollar or the Brazilian currency between Australia and Brazil. Suppose in this context how the automatic balance of payment correction take place you have to discuss that. With more inflow of gold from, gold to Australia it is (( )) from Brazil is sending because Brazil have the deficit trade with the Australia, Brazil need to send gold to Australia. Australia receiving more gold and what does it mean? It means that supply of currency in Australia would increase. Suppose Australia in paper currency standard, that means, the underlying asset is gold on that basis the paper currency develop and the paper currency will be supply more in Australia because Australia receiving more gold.

There will be more supply of money or supply of money in Australia. So, new bills will be created in Australia and when there is more supply of currency, the value of the currency decline because of inflation. The inflation reduce the value of the currency or the purchasing power of Australian people. So, the Australia, Australian good and services will be more costlier.

Now, since Australian goods and services are more costlier the demand of Australian goods and services will be less from the rest of the world and so, also for Brazil will not, may not export may not import more from Australia because Australian goods and services are more costlier, at the same time Australian imports to other country decline and automatically the Australia which enjoy the surplus balance of payment with respect to Brazil will get automatically corrected. On the basis on the other hand, on the other hand it will be different for, it will be different for Brazil (( )) Brazil now, Brazil now since brazil have a deficit balance of payment, Brazil have a deficit balance of payment their currency value is currency or the gold coin gold will be they have to send to Australia and since the Brazil would not want buy more expensive Australian goods because Australian goods are more dearer now, more price because of inflation in Australia. Brazil, Brazil's demand of Australian good decline and the same time at the

same time the trade deficit of Brazil against Australia reduces over the year and this require and this this lead to a position where Australia the deficit balance of payment with respect to Australia for the Brazil get corrected automatically. At the same time Australia having a surplus balance of payment with respect to Brazil get automatically corrected.

This situation lead to what is called a 0 balance of payment or the balance of payment may not have any deficit or surplus against between Brazil and Australia. Why it is happening? Here you have to understand that there is a free flow of gold (( )) and gold between Australia and Brazil. Second the whenever there is a deficit balance of payment or surplus balance of payment, it the demand and supply of gold at the mint price or the exchange rate price automatically corrected because of the cost of goods or the price of good indirectly linked to the circulation of gold because no doubt underlying asset is gold, on that basis that paper currency standard or the other monetary standard develop.

However the supply of gold from one country to another country or the circulation of gold from one country to another country decides the exchange rate. When a country rich being more gold, the country bound to circulate more money in their own economy. When they circulate more money in the economy there will be a inflation, the cost of goods and services in that country increases and this lead to fall in the demand and supply, fall in the demand of the goods in that particular country and the export price which they because of the lower price of goods and services they enjoy the export some kind of incentive in export, that incentive may not be there and their export decline because of the price of the goods and services increase at the same time since the price of goods and service increase other country may not import that good. In this process the surplus deficit balance of payment automatically corrected. We have to understand that mint parity theory provide some kind of, some kind of adjustment in the in the balance of payment correction process.

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Mint Par Parity Theory

- Subsequently, Australia would then return to a zero balance of payments because its trade surplus would disappear.
- Likewise, when gold leaves Brazil, the price of its goods should decline, making them more attractive for Australia.
- As a result, Brazil would experience an increase in exports until its balance of payments reached zero.
- Therefore, the gold standard would ideally create a natural balancing effect to stabilize the money supply of participating nations.

If you see as a, if you see as the our earlier example since there is a surplus there is a gold transport from Brazil to Australia the goods and services in goods and services in Australia will be cheaper in Brazil will be cheaper at the same time goods and services in Australia rich being more gold since that they have to supply more currency in the economy. So, there will be inflation in Australia and price of the gold, price of the goods and services in Australia more. So, demand of Australian goods will decline at the same time Australia, Brazil may not import more from Australia. So, deficit balance of payment against Australia in case in case of Brazil will be corrected. So, there is a natural balancing effect or stabilizing effect in case of in case of mint parity theory. The natural travel balancing effect or stabilizing effect lead, in fact, linked with the money supply and the both nation will get benefit because of the automatic correction of the balance of payment.

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Gold Standard :Operational Difficulty

- When gold left a nation, the ideal balancing effect would not occur immediately.
- It takes the economy to the phases of recessions and unemployment would often occur.
- Nations with a balance of payments deficit often neglected to take appropriate measures to stimulate economic growth.
- Instead of altering tax rates or increasing expenditures - measures which should stimulate growth - governments opted to not interfere with their nations' economies.
- Thus, trade deficits would persist, resulting in chronic recessions and unemployment.
- After the second world war, the International Monetary Fund replaced the gold standard as a means for nations to address balance of payments problems with what became a "gold-exchange" standard.

The gold standard there are many difficulties are there under gold standard. As I mentioned that gold standard when gold standard requirements are different, at the same time the implementation of gold standard also very difficult. The here you have to understand why gold standard is so important because the gold is gold is such kind of asset where there is a demand of demand is everywhere. At the same time, in the same time it is durable, it is what is called storable and also the gold as I mentioned earlier is as I mention earlier gold is gold circulation of gold depends upon the some monetary condition, the monetary condition is here there should be a free flow of gold from one country to another country.

Whenever a country receive gold they have to convert the gold into their own monetary unit in the form of either suppose they supply more money in their economy where a country supplying gold or a deficit balance of payment, balance in balance of payment country whenever they supply transport gold from one country to another country the circulation of money in that country decline. So, the gold flow of gold from one country to another country create some kind of balancing effect, the balancing effect lead to, lead to what is called a correction in the balance of payment. When gold left from a nation the ideal balancing effect would not occur immediately because the balance sheet, what the ideal balancing effect we have to understand that. When a country send gold from one country that particular country to another country they have to reduce the money money supply in the economy.

How they will reduce the money supply because say underlying asset on the, on the basis of what the gold standard develop is the gold itself. When gold is leaving when a particular country, there gold the money supply in that country should reduce then that is requirement, that is a basic requirement for a balancing effect. However, however, it is not automatically reduce many government, many country the government may not supply reduce the supply of money in the economy because gold has left from that country. It takes the economy to the phases of recession, unemployment and with affect would which affect the entire economy as a whole because when gold left from one country, the country may face what is called recession.

Because they have to reduce the money supply they, the money supply reduction lead to the production process. Production process also come down and production process when come down or economic activity come down there will be unemployment in the economy and because of that reason many country even though gold left from there they may not reduce the money supply in the economy and this automatic balancing effect may not occur and without the automatic balancing effect gold standard cannot continue and understanding, realising this, realising this many nations with the balance of payment deficit often neglected to take appropriate measure to stimulate the growth because gold standard not cannot only control only control the deficit balance of payment. There should be reduction of money supply in the economy, the reduction of money supply take place through increase in tax or reduction increase in expenditure.

So, automatic correction of automatic correction of balance of payment is not possible in economy. When gold left from the country the country face recession, unemployment and economy activity become downgraded and that require intervention on the part of the economy economic authority. So, there should be reduction tax increase in tax or increasing expenditure to make to stimulate the growth government may not be in a position to do that because there are many other effect of this, of this gold standard. You have to understand that the interface of interface of gold standard with the monetary standard monetary sorry monetary standard of the economy is very intricacy. The intricacy process is the trade deficit, is linked to unemployment, it linked to recession, it need to tax rate control tax reduction and these are the intricacy process when gold standard, gold standard is operating and here trade deficit would precede resulting

chronic recession and unemployment in the economy. After the second world war the correction process was very stringent.

So, after the second world war many country, many country discontinued the gold standard realising that it is not only not possible to control the economic activity through the gold standard and in the international after the second world war the many country got their independence and they there, they from the frame what is called international monetary fund which take care the monetary standard of the economy, economy and the world as a whole and in this process metallic standard particularly the gold standard abandoned and the even many country introduce what is called as inconvertible paper currency standard, it either link to gold directly or indirectly and this process of gold standard discontinue after the second world war and many country introduce the paper currency standard and become a member of the IMF for the, for the monetary exchange bid among the country. Really, we have to when you when you discuss about the monetary standard or the gold standard there are many articles are there.

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References I mention here you have to international financial management 3 edition, if you see the 3 edition of international financial management the gold standard Resnick and Irwin they mention the gold standard. Another is multinational financial management by Madura. I can go through that and see how multinational different country adopted the gold standard and also correct forcefully abandon the process.

Another book is financial management by Shapiro and also read some articles are there in the economic policy volume 1 in the interscience publication you can go through the article and try to understand the gold standard.

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Model Questions

- Write, in brief, the historical developments of international monetary system.
- Discuss, with examples, the operational aspect of Gold Standard.

Suppose, you want to discuss some model question here, model question here I mention here one model question here. Write in brief the historical developments of international monetary system monetary system here and second one is the discuss the with example operational aspect of gold standard. So, first question the brief historical developments of monetary international monetary standard as I in the beginning of the lecture I mentioned that the economy monetary standard, in monetary standard or the gold standard is as old as the human history itself. From the barter standard barter exchange of goods and services to a metallic standard that is particularly the gold standard the economy passed through over the years. The gold standard continue more than for 300 400 years and over the years people realise that gold cannot, may not continue as a monetary standard because economy is expanding. There are economy is expanding one aspect, second aspect that when a in a expanding economy you need more supply of currency and supply of currency linked to gold and gold itself linked to the mine and in the world level, world level the mines of gold is very few, the amount of gold circulation is limited in nature. In a limited nature gold circulation the economy cannot expand because for expansion of, expansion you need more gold because the monetary standard depends upon the gold standard gold amount.

So, when you write the international monetary system you have to write from the barter system. The barter system what are the problems people face after that you write about the monetary gold standard and gold standard we mention the why gold is considered as a monetary standard because the price of the gold almost remains stagnant. There are free circulation of gold, the gold is durable, storable and also you cancan minutely divide the gold into into different units.

So, that monetary standard can be develop on gold basis and also we mention that what are the requirements of gold standard to function. The first requirement is that there should be free circulation of gold in the world level. Second is that economy should not, the economy in means the monetary authorities should not interfere in the gold standard, the free import and export process and also whenever there is a circulation of money on the basis of gold either in the pure gold standard or a or you call relative gold standard their underlying asset should always be gold. Under pure gold standard gold value it is, the intrinsic value of the currency nothing but the gold amount, gold amount or the number amount or the many how many grams of gold is there.

So, there is no problem in deciding the value of the gold or value of the currency. However, in the relative gold standard, in a relative gold standard the value of the gold depends upon, the value of the gold depends upon how much gold the currency is having since gold is internationally acceptable asset the international price is the gold price itself. So, different country may have different prices. However, this this price is not so different as the world level because there was a free circulation of gold among different countries. However, the since there are a deficit country or a surplus country the trade deficit or trade surplus automatically corrected under gold standard, a deficit country need to reduce the supply of money in the economy because their import export there say a deficit means they have to, they have to pay in forms of gold to other country. So, they have to reduce the money supply in the economy. So, that price of the goods and services would increase. Prices of goods and services would decline and the incentive for export or import should be there.

At the same time whenever there is a surplus country the when the surplus country receive gold they have to circulate more money in the economy. The price of the goods and services will increase though incentive they enjoy in exporting should reduce and their goods and services costlier. So, that their export also reduce and whatever the

surplus they enjoy in balance of payment would decline over the year. At the same time the in case of a deficit country the for since the price of the goods and services decline they enjoy more in export export and their and their goods and services will be demanded in the rest, in the rest of the world. There you will receive foreign currency or gold and in this process they correct their deficit balance of payment.

So, under the mint currency mint parity theory which is the primary aspect or fundamentals of the gold standard, there is a mint price of gold and there is exchange value of the gold. The mint price of the gold is the amount of gold itself, the exchange value of the gold depends upon the transportation cost. The transportation cost of, the transportation cost of gold from one country to another country.

If the transportation cost is more the exchange rate will be more and it will be more than the mint price. When the transportation of gold is more than the mint price, transportation of gold is more than the exchange value then it is better to transport the currency transport gold rather than sending the currency. So, the fluctuation of currency, fluctuation of the exchange rate all in between the transportation of gold. So, the fluctuation is very limited in nature. So, in the, in case of, in case of our mint parity theory or in case of our gold standard the transportation cost determine the fluctuation rate. So, transportation cost since despite the fluctuation rate that the fluctuation rate there is hardly any fluctuation of currency over the year because of the underlying asset is gold.

So, second question is here the discuss with the example operational aspect of gold standard. As we discuss in the theory in our example the US and Britain as I mention that when the dollar rate the 1 gram or 10 grams of gold in US is 100 dollar, 10 grams of gold in US is 100 dollar and similarly 10 grams of gold in Britain is 200 pound the exchange rate between US and US dollar and pound sterling will be 1 pound sterling equivalent to 2 dollars and this is mint parity rate and second aspect is that second aspect that since gold transportation between Britain and US is 0.5 cent.

So, the exchange rate between two countries take place at 2. 1 pound sterling will be 2.05 dollar and the operational aspect of gold standard is that since the pound sterling and US dollar the fluctuation depends upon transportation cost the rate of exchange rate between US dollar and pound sterling never exceed 2.05. If the two, it is more than 2.05 then it is

better for the US importer or exporter, they will transport gold rather than rather than wait for the currency to purchase from the market. So, the operational aspect you have to define that the gold point there is a gold point, gold exchange point we call depends upon the transportation cost.

On the other hand there are many other requirement for the gold standard for success. First requirement is that the value of the gold should remain constant because constant mean in the sense that the international price of the gold. And the international price of the gold depends upon the supply and demand upon the gold. Second thing is that since the gold is the underlying asset on that basis different country develop their currency standard they should link to the supply of currency should be linked with the amount of gold they have. When they receive more gold they should supply more currency, when there they when the currency when the gold position decline they should reduce the currency circulation in the economy and this this will automatically corrected what is called, what is called the balance of payment and third thing is that third most important thing is that we have operational aspect of gold standard is that the gold as a asset, gold as a asset on the basis of which the currency system develop the value of the gold remain standard just like just like we have a, we have a standard, the standard should not be changed.

So, because if we change the standard the value of the system cannot work, similarly under the gold standard also the value of the currency depends upon the gold. There is a artificial storage of gold or the artificial artificially people store the gold, the international price will more and this effect the entire gold standard, all over the world and you have to understand that the requirement of the gold standard in different country is same because once you, once you go out of the gold standard there is other standardized metallic standards are there the metallic standard people have, many country have, many country have, many country adopted the silver standard may be many country other country also also adopted other metallic standard. However all standard linked to the gold, the underlying asset was gold and all other standard linked to the gold. So, even though we adopt any other standard other than gold standard, however, linked to the linked to the standard with the gold, we cannot, we cannot function without abiding by the gold standard requirement. The gold standard basic requirement is that the there should be circulation of money or circulation of any

currency depends upon the availability of gold and there should be free flow of gold from one country to another country without that you cannot have a standard which can consider as a metallic standard or a gold standard. Here we have to understand that the why I mention the operational aspect of the gold standard is another aspect that many country abandon 1850 onwards, many country abandon their gold standard.

However they adopted other metallic standard. Other metallic standard linked with the gold standard because underlying asset they consider the gold. So, while while discussing about the operational aspect we should also mention that so long as the underlying asset is gold you cannot you cannot consider you cannot have a cannot have a such kind of monetary standard without abiding by the gold standard, the gold standard requirement is basic requirement where free supply, free import export of gold should be there and gold should link to the monetary standard when the gold country is importing gold they should also, they should also import what is called they should also abide by the requirements of the gold standard.

Here, we will the historical while writing the historical development you should also mention the different countries how they adopted different metallic standard like here you should understand that China, India, some like Brazil, some other countries like like the like country like your US and European country they adopted gold standard along with other monetary standard also. However over the year they realized that since gold standard is the basic requirement basic requirement having gold you cannot have other standard without abiding by the gold standard guideline. And second question you have to while discussing about the operational aspect of gold standard you should also write the basic requirement of the gold standard. The basic requirement here the free export import or free flow of gold from one country to another country, there is there is a free flow decides the mint parity rate and the free and there should be transportation of gold form one another one to another country that determine the exchange rate.

And at the same time when a country receives gold they should increase the monetary base by supplying more currency in the economy when a country in a deficit or the exporting gold or gold is outflow from that country that time they should reduce their monetary base by reducing the supply of currency in the economy. And at the same time, at the same time, at the same time whenever there is a deficit and surplus balance of payment there should be free export and free import of gold and domestic price of the

gold should not, domestic price of the gold should link to international price, there should not be any artificial increase of domestic price through tax or through any other activity.

Because the end of the day the gold is a international asset and international price demand and supply of gold determine the international price on that basis the gold standard developed and while having other operational aspect of gold is that, there should be free flow of gold from one country to another country. And on the, on the other hand when you accept gold standard gold, standard as a underlying asset on that basis you develop paper currency standard or any other metallic standard like silver then also you have to abide by the gold standard guideline. The gold standard guideline mention here as I mention here the gold standard guideline is the guideline is there should not be a, should not be a, should not be any kind of trade barrier in the in the flow of inflow, outflow of gold. The trade barrier create artificial hike in the price and an international price is one and the domestic price is rather you cannot have a gold standard you cannot gold standard cannot function in that condition.

So, tax principle 0 tax country, 0 tax on the gold is essential for the gold standard. Now a days if you realize that though despite gold standard has been abandoned say after the second world war. Now, because many countries, many country there are thinking process is going on to revive the gold standard because gold standard create a create what is called a stable economy. Stable economy in the sense that there is a automatic correction of inflation, there should be automatic correction of balance of payment, there is a automatic correction of what is called a debt, the price situation in the economy and also the circulation of money since depends upon the gold. So, there is a what is called a control aspect on the part on the part of monetary authority through in the, in the form of creation of money in the economy. And now a days, now a days thinking process is going on to create whether to revive the gold standard over because when the current financial instability is because of excess supply of money, artificial hiking of interest rate and also tax barriers.

Now, the gold standard this kind of things are not there is a pure monetary standard in case of gold and gold as a international asset, international asset that the price of the gold depends upon the supply and demand of the, in the economy in the world level people have decided that, now economist are thinking process is going on it is better to revive

the gold standard because gold have gold standard have a many positive aspect. The, at the same time whatever the negative aspects are there in the gold standard it can also it can be controlled. The positive aspect is that the gold price, gold price is the underlying asset on the monetary system. Monetary system depends upon the supply of gold and demand of gold.

So, there should be another automatic correction of balance of payment, inflation or the price hike may not be there under gold standard because gold itself decide how much money should be circulate in economy and there is a what is called a binding aspect on the on the on the part of central bank on the part of what is called monetary authority how much money should be circulate in the economy and the deficit and surplus balance of payment which create recession, which create unemployment, which create negative activity in the economy, in the economy automatically corrected under the gold standard. However, the many negative aspects are there in the gold standard which can be corrected with the, with monetary intervention. The negative aspect is that since amount of gold or the what the circulation of gold is very limited. So, when the world economy is expanding we need more money in the economy.

That can be corrected by linking by not going for the pure gold standard by going to a relative standard where can where we can decide how much gold is equivalent to how the number of currency. When we need more currency in the circulation we can link to the relative standard of gold and decide the 1 gram of gold equivalent to how much currency and in this process over, in this process we can revive the gold standard and monetary authority the economist over the economist at present thinking the gold standard is ideal standard of monetary condition monetary condition, monetary requirement or the monetary standard in the world. In this process I let me finish this aspect of gold standard and we will discuss in the next lecture after the abandonment of gold standard when the paper different country introduced the inconvertible paper currency standard, how what kind of problem they face and that will be our the that will be that will lead to our what is called conclusion and conclusion of monetary standard in the world because the paper currency standard which was earlier in the earlier phase primarily after 1945-47 till 1967-68 even it is also linked to gold.

The US economy US economy your US dollar was linked to some kind some amount of gold and all other country all other paper currency of different country linked to US

dollar. Indirectly we were also there till 1867 or 70 early 70 we were there in the gold standard. See as US dollar there was linked to, US dollar was linked to gold the US economy how much dollar they should, how much dollar they should circulate depends upon the how much how much gold reserve they have. If they are having more gold reserve they circulate more dollar, if they are having less gold reserve they will circulate less dollar and other country in the world link their currency to the gold standard with the gold standard indirectly because they link their currency to US dollar.

And in this process the exchange rate take took place among different countries till 1970 by IMF in the form of, in the form of paper currencies to the US dollar and US dollar to the gold standard gold and this process continue 1970 after that US abandon the linking of gold to the own dollar and this inconvertible paper currency standard, now it is continuing and in that the rate exchange rate is taking place through the purchasing power parity theory and we will be discussing the purchasing power parity theory in our next session.

Thank you.