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TITLE: INPUT OUTPUT MODELING OF IMPACT OF EXCHANGE RATE FLUCTUATIONS ON INDIAN ECONOMY

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ABSTRACT:

Foreign exchange rate may be distinguished broadly into two categories: administered and market based. Subject to limitations of convertibility, market based rate fluctuates on day to day basis. These changes confer both benefits and losses to individuals, organizations and economy. International travelers will gain if the value of home currency falls, while an appreciation will inflict loss. Export and Imports houses and service providers to International business like shipping and insurance companies and banks lose or gain due to changes in market rate. Companies, in whose stocks foreign investors invest may also lose or gain due to rate fluctuations. In and outflows of foreign investment are directly affected and these then directly affect stock market and fortunes of corporate houses. For example, if Indian rupee appreciates, it will have diametrically opposite effects. Gross terms of trade and export earnings will rise per unit of exports. But total export earnings will be adversely affected as Indian exports loose an edge in international market, resulting in fall in export quantities. It may ultimately be counter productive. All such changes affect the economy, business and growth. In second case, we may have market based exchange rate under full or partial revenue and capital account convertibility. Comprehensive impact accounting of exchange rate fluctuations can be assessed in an input output model. We shall supplement IO model by decomposition model. These models will furnish an estimate of gain/loss of export earnings and import bills. Net gain or loss from these changes will be incorporated in static Leontief model: X1 = (I-A)-1 f1 Substitution of f2 for f1 will give impact on import bill. f1 shows sector wise net gain or loss in export earnings. f2 shows changes in import bill: X2 = (I-A)-1 (f2) Difference between X1 and X2 will show net gain or loss. X2-X1 = ΔX Where X2 is the gain or loss in import bills. Secondary data shall be used. IO tables of 1994, 1999 and 2004 shall also be used as data base.