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Q34

Convertibility of rupee implies (a) being able to convert rupee notes into gold (b) allowing the value of rupee to be fixed by market forces (c) freely permitting the conversion of rupee to other currencies and vice versa. (d) developing an international market for currencies in India. Official key: C.

UPSC Civil Services Prelims 2015 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation**(a)**

(a) being able to convert rupee notes into gold. That is a gold-standard convertibility India does not run. Not the modern meaning here.

(b)

(b) allowing the value of rupee to be fixed by market forces. That is exchange-rate flexibility (floating), not convertibility of the currency itself.

(c) Official key

(c) freely permitting the conversion of rupee to other currencies and vice versa. Convertibility means residents and/or non-residents can exchange rupees for foreign currency (and back) for permitted transactions. That is the official key.

(d)

(d) developing an international market for currencies in India. An offshore or onshore forex market can exist without full convertibility. Not the definition.

Summary

Official key is (c) freely permitting the conversion of rupee to other currencies and vice versa. Convertibility is about exchanging the rupee for foreign currency. It is not gold convertibility, not the same as a float, and not the same as hosting a currency market. India has current-account convertibility; **capital account** remains managed.

Related possible facts

These can be asked in a future Prelims paper.

Current account convertibility

India from 1994 (IMF Article VIII)

Capital account

Still regulated (FEMA)

Tarapore Committees

Roadmaps on capital-account convertibility

FEMA 1999

Replaced FERA; manages foreign exchange

Float vs convertibility

Price of forex versus freedom to exchange

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