This study examines the exchange rate behaviour of the rupee and exchange rate policy of India since the basket link which began in 1975. The exchange rate experience in the pound sterling peg that prevailed during 1971-75 is examined briefly, intended to serve as the background of the analysis. Since March 1992, the basket link mechanism has been dispensed with and the exchange rates of the rupee for the majority of India’s external transactions are determined by the free market forces. The new system, termed as rupee convertibility, is also briefly analysed in order to make the study up-to-date.

Basically, the study has four broad objectives: a) to provide the analytical issues underlying the choice of exchange rate regime in the developing countries; b) to examine the logic of policy shifts in India’s exchange rate regimes and exchange rate policy keeping in view the developments in her external sector; c) to compute and interpret the short and long run behaviour of nominal and real exchange rates of the rupee, and d) to provide an analytical framework to examine the exchange rate policy in India, identifying the determinants of real exchange rate and evaluating the impact of exchange rate changes on Indian economy, particularly exports.

The study is divided into ten chapters. Chapter I studies the evolution of exchange rate regimes since the adoption of floating, including the recent transition in many developing countries towards floating regime. Chapter II analyses the objectives of basket peg and abstracts the necessary clues for evaluating India’s basket peg regime. Chapter III provides an analytical framework to compute and interpret
the effective exchange rates of the rupee. Chapter IV narrates the exchange rate policy of India in the light of the developments in her external sector. The purpose of this chapter is to provide the logic of policy shifts in India's development strategy as embedded in her foreign exchange regimes. Chapter V examines the short run volatility of the rupee and provide empirical evidence on the bilateral as well as effective exchange rates of the rupee covering the period 1970-91. Chapter VI develops a framework for real exchange rate targeting in India, and examines the issues connected with the purchasing power parity rules and the long run determinants of the real exchange rates. Chapter VII tests the inflationary impact of rupee depreciation. Chapter VIII assesses India's trade regimes and trade performance and examines the impact of exchange rate depreciation on India's exports at the commodity level. Chapter IX examines the issues connected with India's present exchange rate regime based on rupee convertibility. Finally, Chapter X provides the main conclusions of the study.