

# **Analysing the Impact of Foreign Exchange Rate on Macroeconomic Variables in India**

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## **Abstract**

This paper analyses the impact of foreign exchange rates on the foreign exchange reserves and the real Gross Domestic Product in India. These variables are essential for India's external sector policy. Some basic definitions of the different kinds of exchange rates are covered in light of India's economic context. This is followed by a literature review on the dilemma of adopting a strong or a weak exchange rate policy and its implications on the economy. Presented after this is a model of the cyclical nature of currency fluctuations in an economy. Empirical evidence shows that currency depreciation causes an increase in foreign exchange reserves and economic growth. Data from the International Financial Statistics of the International Monetary Fund and World Development Indicators of the World Bank has been utilised using econometric tests and software to verify the hypothesis. Results are ascertained and concluding remarks are made thereafter. Certain limitations to the research have been described as well.

**Keywords:** Foreign Exchange Rate, Currency Depreciation, Foreign Exchange Reserve.