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GOLD AN ALTERNATE FORM OF CURRENCY

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Abstract

Adherence to the gold standard is a condition of all IMF member countries. Upon these conditions, they have freely accepted the code of behaviour. Maintaining the price of money at home at a gold equivalent is often associated with gold currency.

Those who advocated for the gold standard stood on one side, while those opposed it stood on the other. The gold standard plays an essential role in preventing monetary authorities from evading responsibility for their actions. This argument also applies to the gold-bullion standard and the gold-exchange standard to a lesser degree because of the inconveniences of holding gold bullion or gold exchange. There is a point of weakness in the theory that wise men won't save their money when prices rise.

To keep and enhance the usage of the gold currency unit while also promoting the monetary gold unit in international payments and backing this with coinage and paper money, they work to preserve and expand the use of the gold currency unit. In addition, they are working to prevent global transactions from using only gold coins, currency, and paper money. They also aim to cut down on monetary gold usage and prohibit central banks and governments from making international trade with gold coins, currency, and paper money.

Paper money, subsidiary coins, and deposit currency in monetary systems have been increasing, and as a result, these systems have turned into commodity-standard systems. It is necessary to implement managerial controls to manage an organisation effectively. However, rules that empower the free enterprise to operate should be set up to free managers from overseeing operations constantly. Regardless of the currency, it is linked to, and there will always be a commodity-standard factor in the mix.

Keywords: *Bullion standard, Currency, Gold, Paper Money*

INTRODUCTION

The personal savings of any country has a significant impact on the national economy. Having saved and invested is seen as an effective way to fight poverty. Investing can be defined as the act of allocating money or other resources with the hope of obtaining a future benefit. Return is this benefit's name. Generally, investors assume that returns on their investments will be higher. Because of the increased interconnectedness of the global economy, there are numerous asset classes or investment avenues for investors. These avenues can be generally classified as investment opportunities in financial and tangible assets. At present, we believe that protecting our wealth is better than the alternative, which is building our wealth. Gold is such a "Safe Haven Asset" that investors across the globe continue to place trust in. When investors purchase gold, they do so because they look to lower their risk by using derivatives and futures contracts.

Historical Background. In the early history of monetary systems, full-bodied money was emphasized on gold and silver. Gold became more convenient for use because of its greater value in small substances as a reserve and as a means of international payment.

Since, gold standard was adopted by the increasing number of commercial nations, the desirability of the gold standard increased. From an international point of view, the chief advantage of adherence was considered to the gold standard as it provided a uniform basis for equating commodity and security prices. This uniformity of monetary facilitated the expansion of foreign trade and investment. As a result, gold became the international medium of exchange and standard of value until World War I. Since that time, gold has been used intermittently as the international medium of exchange and value standard.

There is speculation and volatility in the gold market, as with other markets. The modern gold market looks like a complex network of diverse and growing relationships. During the first three decades of the 1970s, the amount of gold that was produced each year increased by a factor of three, while the amount of gold that was bought annually went up by a factor of four. Gold markets spread across the globe in the 1970s. Gold is bought by far more people today than it has been throughout history. WGC uses a ten-year average demand estimate, which, by the end of 2016, will result in 4100 tonnes (approximately US $166 billion) of total demand. Around half of the total market (for jewellery, investment in gold bars, gold coin, gold ETF, and technology) comes from one single source (i.e. 54% of jewellery demand, 30% of investment in gold bars, gold coin, and gold ETF demand, 10% of technology demand, and 6% of demand in central banks). The world Gold Council claims that each cell phone contains up to 50 milligrams of gold, about 1 billion phones each year. This equals about $500

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million in gold each year. Why would you invest in gold? Gold is a unique asset, highly liquid, but it frightens people. It acts as a hedge against inflation and currency risk and serves as a vehicle to mitigate losses in market stress. Gold is considered to have a value that can be explained only by the notion of "intrinsic value." Gold's purchasing power is far less sensitive to consumption than most other commodities. Demand for gold rose across the globe after the 2008 financial crisis, and Asian demand grew to support the global market. The WGC's latest gold demand trends reports indicate that. Compared with the same period of 2016, the global demand for gold fell by 10 percent in the second quarter. Due to the 2016 record inflow of ETF, the comparison suffers. Bar and coin investment contrasted to jewellery demand was promising with other technology, jewellery, and technology demand.
To both experts and laypeople, gold is considered to be the most resilient investment option in India. There is no doubt that it is the most popular investment strategy in India. Gold has outperformed the equity market and real estate over the last ten years, all for the right reasons. While gold prices tumbled in the first few months of 2017, experts predict this dip will be short-lived. " Gold is regarded as a symbol of good fortune, prosperity, and wealth. On a per-capita basis, Indians possess more gold than any other population. India's imports of gold amounted to 12.5% of its total imports in 2012-13 due to the country's appetite for yellow metal. In 2012, the entire world gold production was 4,130 metric tonnes, and India imported ¼ of that or roughly 26.12% of it. In the first half of 2017, gold imports could reach 450 tonnes, which is more than double the imports during the same period in 2016. Gold demand in the coming months will hold steady even after the 3% GST has been imposed. India's gold market in Q2 2017 was intense as seasonal demand and a return of positive sentiment were supported by the resumption of remonetisation and people's expectations of a good monsoon. As a result, year-on-year gold demand rose.
Gold was recognized as one of the functions of money as it was being used as a customary of value; and the dollar was first renowned and expressed in the United States for standard monetary unit due to its exchange values or prices. This article deals to express the gold standard as a most prevalent among other types of monetary standards.

LITERATURE REVIEW

Most of the gold is only harvested as ornaments. Because of India's religious and social customs and the lack of banking facilities, India has long been the world's annual producer. **Tandon and Urich (1987)** concluded that the PPI announcements that the US government makes and the unexpected components of money supply significantly impact the gold prices. **Bailey (1988)** found that the increasing gold volatility is due to the unexpected weekly increase in the announced level of money supply. **Kitchen (1996)** studied how the federal deficit projections change with domestic and international financial variables. Over the period 1981–1994 the researcher found a positive and significant impact of these changes on the announced changes in federal deficit projections.Gold is also considered to play the role of hedge against inflation. According to **Lawrence (2003)**, there is no significant relation between certain macroeconomic variables such as inflation, GDP, interest rates, and golf returns. **Sjaastad and Scacciavillani (1996)** concluded that gold can be used store of value against inflation. **Baker and Van-Tassel (1985)** related the price of gold with expected inflation rates. **Sherman (1983)** reported the log of gold price is directly linked to expected and unexpected inflation. According to **Kaufmann and Winters (1989)** the changes in the US inflation rates is one of the important factors affecting gold prices
Ball, Torous et al. (1982) examine the morning and afternoon price of gold in the London metal exchange over the period of 1975-1979. They found little indication of either a daily seasonal or a Monday effect (negative). This analysis is independent of whether Monday returns are measured as Friday AM – Monday AM or Friday PM – Monday PM.
McKenzie et al. (2001) applied the univariate power ARCH (PARCH) model to precious metals futures contracts which are traded at the London Metal Exchange (LME). He found that there are no asymmetric effects present, and the model also could not provide sufficient explanation of the data.
Tully and Lucey (2007) explored the univariate asymmetric power GARCH (APGARCH) model to analyse the asymmetric volatility of gold. They established that the gold's volatility is due to exchange rate fluctuations in addition to some other macroeconomic variables.

GOLD AS AN INTERNATIONAL GOLD STANDARD

Gold standard is sometimes referred to as an international standard for gold in today's world. Gold is meant as an international Gold Standard in the international system in which all contributing countries have legally described the value of gold in their respective monetary units like dollars, sterling pound francs and so on and a mechanism has been established in which gold value remains equal to their local currencies and to one another.
Gold is defined in terms of Monetary Units. At Bretton Wood, New Hampshire, in 1944 arrangements were made to establish an international organization i.e. the International Monetary Fund in 1944, with a key purpose of

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facilitating the international monetary system of its participating countries to operate so that gold is linked to the value of their currency. The International Monetary Fund Accord agreed that "the value of its member's currency should be taken as the common denominator, whether for the gold or the dollar, of the weight and fineness of the United States from 1 July 1944." Sixty countries defined the value of their monetary units.
The weight and size of the standard unit of the countries were substantial because it determines the number of francs, dollars, etc. TThis is made of an ounce of gold and thus the gold standard exchange ratio with all the other countries. The selection of the size of the monetary unit by the gold standard was of great importance to all nations and all other plans were made, because the relative purchasing power of one currency influenced all other countries' exchange rate in terms of international trade. Exchange rate is the monetary link between the economies of two countries. There is an upper and lower limit on an open gold standard beyond which the sight rate of exchange cannot go, which is called the export-import points for gold.
It was assumed that nations had the right to switch over their currency unit before organising the International Monetary Fund, although that could influence the economies of the other nation in which they were engaged in trade and financial transactions worldwide.
Currency Convertibility in Gold. It should also be essential to define the monetary unit concerning any country's gold. Specific provisions should be implemented for those with currency convertibility rights in gold and gold equivalent on request. The Agreement on the International Monetary Fund does not require any country to convert their domestic currency into gold, but must have ultimate international convertibility in gold or gold. The free exchange of every type of money in all serving areas depends on the domestic monetary system to function smoothly. The international economic system has the same currency interchangeability at a close par if certain complications arise.
The currencies linked to gold and the elimination of free trade tariffs and other artificial trade obstacles must tend to have the effect of securing the gold standard area up to an expected price level. In the economies of the country, there must be sufficient rigidity to make prices excessively high or low in one country as opposed to prices in another.
Balance of Payment Regulation. If the countries accept the International Gold Standard rules, a country will lose gold due to lower value at home. However, general prices of gold are higher at home. Overseas will follow policies that will tend domestic price level to lower, and the countries follow guidelines gaining gold will that will be apt to raise its domestic price level. The reflex adjustments following the export of gold in one country and the import of gold in the other will bring the particular price levels into equilibrium. If bank reserves increased more than the increase in gold-stock at any point in time, the interest rates would fall, spending would increase, and borrowing by the business firms would increase and will also tend to rise in price though the value of money may decline.
Countries attaining gold were to lower the discount rate so that interest rates in the market may be lower and increase in borrowing and spending and raise at general prices. Lowering the interest rates by one country is expected to inspire a flow of investment funds to other countries. Interest rates at higher and higher prices were likely to encourage purchasing in countries where lower prices prevailed. The resultant flow of funds away from the economy achieving gold to the country losing gold would help precisely the situation, leading to the original increase of gold in one case and the decrease of gold in the other.

GOLD AS A CURRENCY REGULATOR

Too much money means too much of anything else may decline its value. The monetary economists emphasized the need to limit circulating money supply to main the value of money—the responsibility for supplying money for circulation since leading to governments, commercial banks, and central banks. One would undertake to create monetary systems wherein the supply of currency is regulated to prevent oscillations in its value. Though banks are in business to get profits by lending and investing, governments are under the burden to spend, which is too prodigious that it appears to be no safeguard against over-spending. Central banks were in a position wherein they outwardly must go along with the financial policies of their respective governments. It was afraid that monetary authorities might allow for money creation in so much amount to bring about more inflation. The only means of achieving price stability was to consider an automatic check without which a free enterprise system may be in danger.
One manoeuvre proposed to limit the supply of money was to make all types of money payable or convertible in gold, directly or indirectly, which was insufficient in quantity. The need for limiting the amount of money is emphasized rather than on the necessity for patronage because money clothed in the legal-tender quality will be acceptable even though it is diminishing in value. Since there are no limits on gold money supply, other types must otherwise be limited, the state or central bank may be antagonised with a gold money claim that cannot be met on request.
The emphasis has varied from place to place to maintain parity between currency and gold. To keep the provisions of parity, the exchange of gold bar and circulating currency were made, the local currencies could be exchanged for foreign exchange, gold-and-gold coins were exchanged and gold currencies and circulating

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currencies could be exchanged. All of these strategies were used at the same time. Furthermore, this parity can be achieved by acts of the monetary authorities without precise statutory provisions.
The provisions to maintain the country's value in its currencies equal to the value of its gold units permit mechanisms to classify gold and gold standards. This classification is convenient and does not mean that any country merely follows the described practises.

TYPES OF GOLD STANDARDS

Standard of Gold-Bullion. Provisions for an established gold unit were made for gold-bullion standard by the operating countries, which is not coined but has a fixed weight and gold content under legal definition. The government buys and sells all gold offered or asked for at fixed prices. However, as gold is usually in the form of bar having relatively large values, it was limited in its ability of the public to obtain gold. And once the gold is acquired, it may be accumulated, exported, used to meet obligations, for industrial purposes, etc.
Standard of Gold-Coin. Provisions were made for gold coins at established weights and gold contents on a gold-coin standard by its operating country. Multiples of the standard unit were coined, as a standard unit unlike gold dollar due to practically very small. Standard metal is permitted as a free coinage, and gold bullion left at the pristine by the public for coinage into gold coins with or without mintage and/or seignior-age charges. The relationship between gold and gold coins is fixed and credit money redeemable in gold coins. Gold coins were made as legal tender, but this legal compulsion to accept gold coins was not necessary.
Standard of Gold-Exchange. Provisions were also made for a gold unit by its operating country or simply declared the gold monetary unit, whatever its physical form, to be kept equal in value to that of some other foreign money. The money is exchanged in drafts drawn on a bank in a foreign country which is on the gold-coin or gold-bullion standard. These drafts on foreign banks bought by the government, and hence a two way movement of domestic currency that is when it sells foreign gold drafts by the government and the away from the government when they buys gold drafts. The value of domestic money is fixed with reference to the foreign gold money as the government buys and sells gold drafts at fixed prices. Public was free to acquire gold, to export or import, to hoard, and otherwise to use it freely as there were no restrictions on the domestic gold market,.
The elementary need of a gold-exchange standard is the right to buy and sell gold exchange freely in unrestrained quantities at recognized prices.

WHY THE GOLD STANDARD?

When the emphasis was on full money, the gold became the standard metal at a time. The use of gold as the standard was made conceivable by the expansion of subsidiary coinage, paper money, and deposit currency as circulating media. During the 19th century, these substitutes for gold which made operating on the gold standard probable grew to such proportions that destroyed most of the meaning of the gold standard as visualized by those during this period.
Qualities of Gold. Gold, as a commodity, has a value for ornamental and industrial purposes. Unlike all other metals, it has the qualities of divisibility, indestructibility and homogeneity. As a valuable metal, gold has prodigious value in small bulk and gives it portability quality. Such qualities of gold make it suitable for coinage as well as for use as reserve money. The stability economic quality in value, in relation to other commodities, made it preferred as standard money.
Mining of Gold. The value of any commodity have a habit of influenced by changes in its supply, stability in supply tends to subsidize to stability in value. Since gold has been given qualities of money, the top and low points in profits of companies in the gold-mining industry brings to follow a contra-cyclical pattern, on the other hand other closely allied industries tend to follow a cyclical pattern. A study of the influencing factors for gold production, if gold prices are established, suggests that gold is produced in such circumstances that its value tends to stabilise. Government must follow a plan of stabilizing the value of gold by way of monitoring gold production. Hence the principles followed would be designed to implement this natural tendency-suppressing gold production during increasing prices and encouraging it during falling prices of gold.
Non-monetary Demands of Gold. The world's gold supply is always not used as money. Hence the value and size of the monetary gold stock is influenced the demand for gold the non-monetary demand. Commercial as well as industrial demands for gold including for gold plating, for the manufacturing process, for gliding, for dental and surgical purposes, for architectural effects in buildings, and utmost important for jewellery. At any point of time the increase or decrease in the commercial demand of gold leads to have a corresponding effect on gold value.
Other non-monetary demand for gold is hoarding demand of the Far East and Middle East, particularly in India. Most of the gold is hoarded only in the form of ornaments. Due to India's religious and social customs and lack of banking facilities, India leads to the world's annual output since long.

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National income is linked to the investment demand for gold. Large gold imports and improvements in banking and other changes in India's economy have prevented during war and post-war due to imposed restrictions and have decreased the traditional hoarding demand for gold.
Monetary Demands for Gold. A large number of gold supply is used for monetary purposes and this demand which clarifies the current value of gold. Presently most of the monetary stock of gold is stocked in the form of bar under the control of central banks and governments. At any point of time that would destroy self-reliance in paper money and token coins in commercial and central banks, the government would tend to enhance the monetary demand for gold.
Suppose a paper standard operated by a country and general prices are inflated. In that case, hoarding of gold will decrease the store-of-value demand for currency and thereby will tend to decrease its value. If the central bank is deprived of gold reserves, the prospects for stabilization of the currency will be reduced, resulting in further reducing confidence in the currency.

COMMODITY THEORY OF MONEY

As per the commodity theory of money, money has a value as it is made of some widely acceptable commodity that has a use value as discrete from money value. Since the presence of paper money, subsidiary coins, and deposit currency, the commodity theorists described that their value was derived from the value of the commodity used to back and to redeem the commodity. Theorists also recognize the existence of other types of money for explaining the value of money only upto their existence affects the supply and demand for the commodity.
The commodity theorists, also known as bullion theorists, considered the commodity standard as metal, had difficulty elucidating the value of irredeemable credit paper money. They finally determined that its value is based on predicted future redemption in the standard commodity. It is now acknowledged that money may have self-regulating value of the value of any standard commodity.
Monetary systems in the developing pace has established an increasingly greater use of paper money, subsidiary coins, and deposit currency, showing that these systems have become very less pure types of commodity-standard systems. As long as a link established between currency and some other commodity, such as gold, a commodity-standard factor shall always remain.

OTHER PROPOSED STANDARDS OF COMMODITY

The monetary standards has been away from the pure-commodity-standard system since historical development. It was projected that a monetary system must be created that would be based upon many other commodities rather than only one commodity as gold or two commodities as gold or silver. The theoretical benefits of such a system are of great importance like greater stability in the value of money as well as greater stability in the prices of the basic commodities used as standard commodities.
Composite Commodity Standard. An alteration of the multiple commodity standard is which would provide for a standard poised of a composite of essential commodities. Such system would necessitate the distribution to the monetary agency of all commodity units in their exact proportion, as per the law, in the same pattern that both gold and silver would be presented symmetallism. The owners of other standard commodities like wheat, rice etc. commodities would find this system very less suitable than the multiple commodity system. The composite commodity standard would have the advantage over the multiple commodity standard that symmetallism would have over bimetallism. No standard commodity would disappear from the monetary system by this way.
Multiple Commodity Standard. If a commodity certificate is issued to serve as money, this idea would permit each of the standard commodities to monetize in the same way that gold and silver are monetized in bullion type bimetallism.
This type of system would provide a minimum price for each standard commodity in the same way that bimetallism provides minimum prices for gold and silver. As such government price might not always be the market price as the mechanics of the system would permit market prices to rise above untarnished prices. Such a situation would lead to profitably conversion of commodity certificates into commodities and resultant in a flow of commodities from government warehouses to the market. The increased supply would tend to check the rise in prices in the market.

SUMMARY

While accepting the International Monetary Fund Agreement by the countries, they are committed to the adoption of the international gold standard. And the code of behaviour has voluntarily accepted by them under the conditions on which they may change the weight of their standard gold units, sell gold, and buy and sell of foreign exchange. The mechanism whereby keeping the value of money equal to gold at home may be the adoption of the gold-coin, gold-bullion, or gold-exchange standard.

There were strong arguments in favour of the gold-coin standard. The gold-coin standard play a vital role as a sort of policeman of the monetary authorities. This argument is similarly applicable to the gold-bullion standard and to the gold-exchange standard though to a lesser degree due to the inconvenience of holding gold bullion or gold exchange. The weak point of the theory is the assumption that the wise man hoards gold only during inflation.

While reconstructing monetary system by placing it on a gold-exchange standard basis, government are separately and supportively trying to strengthen the use of the gold bill of exchange as the foremost instrument of international payment and restricting the use of monetary gold to settling accounts among central banks or governments as well as emerging domestic exchange systems in which trade is carried out with paper money, token coins and deposit currency.

Since the development of monetary system, it has involved an increasingly greater use of paper money, subsidiary coins and deposit currency, it means that these systems have turn out to be less and less pure type of commodity-standard systems. While management is necessary, it should be of the type that sets the stage on which the forces of free enterprise play. So long as a relation remains between currency and some other commodity, such as gold, a commodity-standard factor remains.

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