

## **How is the price of a currency determined?**

*There are various factors that affect the price of any given currency. Read on to know what they are.*

The value of a specific currency is not determined by any government or regulating body. It is the result of a number of factors that come into play. Here's a look at some of these factors.

### **Demand and supply**

The demand for a specific currency is mainly driven by the demand of goods, services and investments offered by the issuing country. For instance, if the demand for Indian IT services is high, more international players will need Indian Rupees to buy these services, thereby pushing the value of Indian currency up.

### **Speculators**

If major buyers in the currency market believe that a specific currency will gain more value in the near future, and consequently, buy more of that currency, its price will rise due to this increase in demand, and vice versa.

### **Political and economic conditions of the country**

The stability of the government and the economic condition of a country also affects the price of its currency. If, for instance, the US government is unstable or the country is facing a financial crisis, the development of the country will certainly slow down. This will cause the value of the US dollar to fall. Similarly, if these conditions are favorable, its value will move upwards.

### **Other factors**

Currency value is mainly determined by the future prospects of the country it belongs to; it is hence affected by a number of factors. These include population demographics, prevailing interest rates, war and conflict situations, unemployment rate, inflation reports, budget announcements, etc.

It would be appropriate to conclude that the price of a specific currency is determined by not just one, but many factors. Understanding these factors will not only educate you on the currency market's mechanism, but also help you trade currencies efficiently.