International Monetary system

International monetary systems are sets of internationally agreed rules, conventions and supporting institutions that facilitate international trade, cross border investment and generally there allocation of capital between nation states.

International Monetary system refers to the system prevailing in world foreign exchange markets through which international trade and capital movement are financed and exchange rates are determined

Features

1. Efficient and unrestricted flow of international trade and investment
2. Stability in foreign exchange rates

3. Promoting balance of payments adjustments to prevent disruptions associated

4. Providing countries with sufficient liquidity to finance temporary balance of payments deficits

5. Should at least try avoid adding further uncertainty

6. Allowing member countries to pursue independent monetary and fiscal policies

Requirements of good international monetary system

Adjustment

A good system must be able to adjust imbalance in balance of payments quickly and at a relatively lower cost

Stability and confidence

The system must be able to keep exchange rates relatively fixed and people must have confidence in the stability of the system

Liquidity

The system must be able to provide enough reserve assets for a nation to correct its balance of payments deficits without making the nation run into deflation or inflation

Stages of International Monetary system

Developments

Classic Gold Standard (1816 -1914)

Interwar Period (1918 – 1939)

Bretton woods system (1944 – 1971)

Present International Monetary System (1971 onwards)

Classic Gold Standard (1816 -1914)

22nd June 1816, Great Britain declared the gold currency as official national currency

on 1 may 1821 the convertibly of pound sterling into gold was legally guranted

At the end of the 19th century, the pound was used for two thirds of world trade and most foreign exchange reserve were held in this currency

Between 1810 and 1833 the united states had defacto the silver standard

In 1834 the government set the gold- silver exchange rate to 16:1 which implemented