BHARAT SCHOOL OF BANKING

APPRECIATION AND DEPRECIATION

Each **country** has its own **currency** (except some **European** countries in **Eurozone** use **common** currency - **'Euro'**), and each **currency** has its own **valuation**.

Therefore, for a **foreign transactio**n**,** there should be a mechanism to **convert** one currency to another (to know how much of one **currency** is **equivalent** to other). The **rate** is known as **Conversion rate,** or **Exchange rate.**

For example, currently (February 9, 2015), **1 US Dollar = Rs. 62.15,** or **Re. 1 = USD 0.016** is the **conversion rate** between **Indian Rupees (INR)** and **US Dollar (USD)**.

Depreciation

Note carefully, that if the **conversion rate** of **INR** to **USD** (**USD @ Rs. 62.15**) **increases** (meaning more Indian rupee is needed to buy a US Dollar), then the **valuation** of **Indian Rupee decreases**. It means **depreciation** of Indian Rupees with respect to US Dollar.

Appreciation

Whereas, if the **conversion rate** of **INR** to **USD decreases** (meaning **less** Indian rupee is needed to buy a US Dollar), then the **valuation** of **Indian Rupee increases**. It means **appreciation** of Indian Rupees with respect to US Dollar.

Example

For example, currently the **conversion rate** is **USD @ Rs. 62.15**. So, to **buy 100 USD**, we need to spend **Rs. (100 x 62.15) = Rs. 6215**.

Now suppose, **INR depreciates** to **Rs. 65 per USD** (note 62.15 -> 65 is an increment, but actually the **value** of INR decreased, meaning more INR needed to buy the same amount of USD). Therefore to buy the same **100 USD**, we need to spend **Rs. (100 x 65) = Rs. 6500**. It means we need to **spend more (Rs. 285 more),** because of the **depreciation** of **INR** to **USD**.

Similarly, if **INR appreciates** to **Rs. 60 per USD** (note 62.15 -> 60 is a decrement, but actually the **value** of INR increased, meaning less INR needed to buy the same amount of USD). Therefore to buy the same **100 USD,** we need to spend **Rs. (100 x 60) = Rs. 6000.** It means we need to **spend less** (**Rs. 215 less**), because of the **appreciation** of **INR** to **USD.**