Off late there has been a remarkable rise in rupee value against dollar currency. In the month of August, 2011, rupee value against dollar was 44.5-45.0 range but in the month of September, 2011 the rupee value has hovered around the range of 49.0-50.0 range. It is expected to rise further which would result in weakening the rupee value against the dollar currency. This kind of increase would have the drastic impact on the macro economy of the country like heavy raise in the import cost where countries like India heavily depends on the importing on Oil and other crucial raw materials needs for the industries. Rupee depreciation means that rupee has become less valuable with respect to dollar. If the rupee moves upward from 30 per dollar to 40 per dollar then rupee is said to depreciate. It means that rupee is now cheaper than what it used to be earlier, so if the dollar was Rs 30 and now it reached 40.
'J' curve is used to represents the theory stating that a country's trade deficit will worsen initially after the depreciation of its currency because higher prices on foreign imports will be greater than the reduced volume of imports. The effects of the change in the price of exports compared to imports will eventually induce an expansion of exports and a cut in imports-which, in turn, will improve the balance of payments.

Implications of Rupee Depreciation: The depreciation of a currency has several repercussions, which could have mixed effects on the economy. The popular 'J' curve leads us to believe that although initially the costs of such depreciation may outweigh the benefits, in the long run the country tends to be much better off. Let us consider the sectors of the economy which will be affected by the depreciation of rupee:

- (a) A depreciation of the Indian rupee will give competitive advantage to the Indian export firms, thus boosting Indian exports. The rise in exports will give a boost to the recovery of economic growth.

- (b) A weak domestic currency will make the imports dearer. This will act as a barrier against imports; it will thus improve the trade balance of the country. However, imports of commodities, like oil, whose demand is relatively inelastic, could dilute, fully or partially, the likely improvement in the trade scenario. Although capital imports are needed for economic growth, the need to curb the deficits is more pressing because deficits have an inflationary impact and they can also lead to financial vulnerability. In case there is exchange depreciation, Indian importers would prefer to purchase locally manufactured goods. This would add to the growth in demand for goods and services, thus helping in the economic recovery.
- (c) A weaker domestic currency would help attract more foreign domestic investment. This is so because international companies would find it more attractive to set up units in India to service their foreign units because of the cost advantages, which in the case of a strong currency could be partially or fully wiped out.
- (d) The repayment of foreign debt by the government will be severely affected due to depreciation in the value of the rupee.
- (e) Another drawback of a weak currency is that it might dissuade foreign institutional investment (FII) from investing in India. The prospects of a weaker currency could also lead to a rush for repatriation of funds by FIIs. The FIIs are permitted to transfer money in and out of the country at will and therefore if there were a legitimate fear of a large fall in the value of currency, they may be tempted to repatriate a part of their funds. This could result in a selloff in the capital markets.
- (f) Depreciation of rupee will lead to higher interest rates in the economy, with the help of which the RBI might want to fight off the pressure of depreciation in the value of the domestic currency.