Mona
Assistant Professor (Guest Faculty)
Department of Economics
Maharaja College
Veer Kunwar Singh University, Ara
B.A. Economics
B.A. Part -1
Paper -2
Topic - Gold Standard
Email address : monapryal2223@gmail.com

Gold Standard :

Gold standard, monetary system in which the standard unit of currency is a fixed quantity of gold or is kept at the value of a fixed quantity of gold. The currency is freely convertible at home or abroad into a fixed amount of gold per unit of currency.
The gold standard was widely used in the 19th and early part of the 20th century. Most nations abandoned the gold standard as the basis of their monetary systems at some point in the 20th century, although many still hold substantial gold reserves.
In an international gold-standard system, gold or a currency that is convertible into gold at a fixed price is used as a medium of international payments. Under such a system, exchange rates between countries are fixed; if exchange rates rise above or fall below the fixed mint rate by more than the cost of shipping gold from one country to another, large gold inflows or outflows occur until the rates return to the official level. These "**trigger**" prices are known as **gold points.**

History :

The gold standard was originally implemented as a gold specie standard, by the circulation of gold coins. The monetary unit is associated with the value of circulating gold coins, or the monetary unit has the value of a certain circulating gold coin, but other coins may be made of less valuable metal. With the invention and spread in use of paper money, gold coins were eventually supplanted by banknotes, creating the gold bullion standard, a system in which gold coins do not circulate, but the authorities agree to sell gold bullion on demand at a fixed price in exchange for the circulating currency.

Lastly, countries may implement a gold exchange standard, where the government guarantees a fixed exchange rate, not to a specified amount of gold, but rather to the currency of another country that uses a gold standard. This creates a de facto gold standard, where the value of the means of exchange has a fixed external value in terms of gold that is independent of the inherent value of the means of exchange itself.

Advantages And Disadvantages :

The advantages of the gold standard are :

(1) it limits the power of governments or banks to cause price inflation by excessive issue of paper currency, although there is evidence that even before World War I monetary authorities did not contract the supply of money when the country incurred a gold outflow, and;

(2) it creates certainty in international trade by providing a fixed pattern of exchange rates.

The disadvantages are :

(1)It may not provide sufficient flexibility in the supply of money, because the supply of newly mined gold is not closely related to the growing needs of the world economy for a commensurate supply of money.

(2) A country may not be able to isolate its economy from depression or inflation in the rest of the world.

(3) The process of adjustment for a country with a payments deficit can be long and painful whenever an increase in unemployment or a decline in the rate of economic expansion occurs.