The Mechanism of the Flexible Exchange Rate:

A system in which supply and demand in the foreign exchange market determine a currency's value is known as a flexible exchange rate. A flexible exchange rate swings freely depending on trade balances, capital movements, and speculation, in contrast to a fixed exchange rate, which is set by the government. For example, the need for foreign currency grows in response to an increase in demand for products or services from outside, which frequently results in a depreciation of the home currency.

Elements Influencing the Growth and Decline of the Indian Rupee:

1. Speculation: Demand may be impacted by projections of future exchange rates. Depreciation may result from investors selling rupees and purchasing dollars if they believe the currency will weaken.

2. Inflation: The rupee's buying power is diminished by higher inflation in India, which makes it less appealing in comparison to the dollar.

3. Interest Rates: India draws in foreign investment when it offers higher interest rates, which raises demand for the rupee and leads to appreciation.

4. Economic Growth: While increasing imports may result in depreciation, robust economic growth draws foreign investment and causes appreciation.

5. Public Debt: Excessive public debt might discourage investors, which can result in inflation and currency devaluation.

6.Current Account Deficit: When imports are greater than exports, there is a greater demand for foreign exchange, which devalues the rupee.

7.Political Stability: The rupee appreciates when there is stability and reforms, which draw in international investment.

In conclusion, a dynamic interaction between macroeconomic variables, market forces, and speculation shapes the value of the Indian rupee relative to the US dollar under a flexible exchange rate regime.