Abstract (summary):

Until the early 1990s, India had a system of very strong capital controls. That allowed India's central bank to have the benefit of monetary policy autonomy while operating a fixed exchange rate regime. From the late 1990s, however, restrictions on the current and capital accounts were substantially eased. The resulting increases in capital inflows created difficult challenges for monetary policy. The main purposes of this study are to analyze the changes in capital controls in India, to classify the exchange rate regime and to investigate whether the changes in capital controls had an influence on the exchange rate regime.

The first part of the dissertation focuses on capital controls and introduces a new method of measuring a country's *de jure* restrictions on cross-border capital transactions. The distinctive feature of this new index is not only its level of disaggregation, but also coverage by month. That allows us to record changes in capital controls more precisely. The new index does an excellent job in picking up some of the important changes in capital controls and it shows us that even though India still maintains significant capital controls, there has been substantial movement toward a more open capital account in recent years.

The second part of the dissertation focuses on India's exchange rate regime. According to the official classification, the exchange rate of the Indian rupee has been a "managed float" since the 1990s. However, recent research has implied that the rupee may have been loosely pegged to the U.S. dollar. This study presents a classification of India's exchange rate regime and also investigates whether changes in capital controls have had any influence on the exchange rate regime. The results reveal that the Indian rupee was *de facto* pegged to the U.S. dollar between 2001 and 2003 but it has been moving toward greater flexibility in recent years. My analysis shows that there is indeed a link between changes in capital controls and the exchange rate regime. The study also shows evidence that India's exchange rate policy led to distortions in monetary policy objectives of the central bank.