Indian Economy · GS - III

Examine how changes in global monetary policy influence the volatility of cryptocurrency markets.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 24/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Federal Reserve, interest rates, global liquidity, risk appetite, leveraged trading, forced liquidation, financial stability

Model Answer

Introduction

Cryptocurrency markets are highly sensitive to investor sentiment and global financial conditions. Expectations of changes in US Federal Reserve interest rates can influence liquidity, risk appetite and speculative investment in digital assets.

Impact of Monetary Policy

1. **Interest rate expectations:** Higher interest rates can make conventional financial assets more attractive, reducing demand for riskier investments such as cryptocurrencies.

2. **Global liquidity:** Tighter monetary conditions can reduce liquidity and increase pressure on speculative assets, while easier conditions may encourage investment in them.

3. **Investor risk appetite:** Inflation concerns and uncertainty over monetary policy can trigger rapid shifts between risk-taking and capital preservation.

4. **Leveraged trading:** Excessive borrowing magnifies losses. Sharp price movements can trigger margin calls and forced liquidations, further intensifying volatility.

5. **Market interconnectedness:** Crypto-market fluctuations can affect exchanges, lending platforms and investors, potentially transmitting stress across the wider financial ecosystem.

Challenges and Measures

1. Strengthen transparency and disclosure requirements for crypto platforms.
2. Improve safeguards around leverage, collateral and liquidation practices.
3. Enhance investor awareness regarding volatility and speculative risks.
4. Develop appropriate regulatory oversight and mechanisms to monitor systemic financial exposure.

Conclusion

Cryptocurrency markets are not isolated from global monetary developments. Greater transparency, responsible trading practices and proportionate regulation are essential to reduce excessive volatility and protect investors.

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