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For investors who are doing so for the first time â€“ investing in a commodity like gold can be quite confusing considering that its prices change on a daily basis. So what is it that regulates and causes the price of gold to change to this extent? Being able to understand the functioning of the market will help you make better investments and profit from them as well.

Gold, just like any other commodity is driven by the forces of supply and demand. But what gives gold an added advantage is that it is something that people hoard in the time of crisis and because of its high liquidation, its effect on prices is constant. Also it is a fact that most of the gold that has been mined so far is still in trade. When the markets are ripe, you will see a massive influx of stored gold coming up for sale.

Another factor influencing prices is the way banks manage the gold that they have. Central Banks control approximately 19% of the worldâ€™s gold and this is a massive amount that is stored away. How banks manage their gold will determine prices, since they do control a significant amount of the substance.

Recently, big ticket gold purchases by the Indian and Chinese governments have also pushed the prices of gold. Both governments are working on increasing their gold reserves and this has added pressure to the existing gold market.

The political and economical situation of country also determines the price of gold. The failure of bank in a country, political instability as well as very low or interest rates touching the negative mark can have an impact on the prices of gold almost overnight. The failure of bank can result in instability and therefore the prices of gold will go up, since people will begin to buy and horde for a rainy day. The economic confidence of a country has a lot to do with how people react to gold. If there is confidence in the monetary structure, the prices of gold will stabilize. If a bank is perceived as failing, then gold prices will go through the roof.

If other means of investments such as bonds and mutual funds do not turn in the dividends that they are supposed to, then people automatically turn to gold to stability. This increase in demand will push up the prices.

Being able to judge all of these factors at various levels is what will help one make smart decisions in purchase of gold.

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