Question Bank

International Economics

Q.1. Multiples Choice Questions

Please, answer the following multiple-choice questions

1. When the value of the British pound changes from $1.25 to $1.50, then
   (a) the pound has appreciated and the dollar has appreciated.
   (b) the pound has depreciated and the dollar has appreciated.
   (c) the pound has appreciated and the dollar has depreciated.
   (d) the pound has depreciated and the dollar has depreciated.

2. Product method of calculating national income is also known as:
   a) Income method
   b) Value added method
   c) Expenditure method
   d) Distribution method

3. A depreciation of a currency occurs when:
   a) The value of the currency falls
   b) The value of the currency increases
   c) Inflation falls
   d) The balance of payments improves

4. National Income differs from Net National Product at market price by the amount of:
   a) Current transfers from rest of the world
   b) Net Indirect Taxes
   c) National debt interest
   d) it does not differ

5. A fall in the external value of a currency:
   a) May cause an outward shift in the demand for the currency
   b) May cause an inward shift in the supply for the currency
   c) May lead to a movement along the demand curve for a currency
   d) May be due to an increase in demand for the country's exports

6. Net national product at factor cost is also known as:
   (a) Net Domestic product
   (b) Gross National product
   (c) National Income
   (d) Personal Income

7. National Income can be explaining from
   (a) $G = C + I + Y$

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(a) $G = C + I + Y$
(b) $C = Y + I + G$
(c) $I = C + Y + G$
(d) $Y = C + I + G$

8. The balance of payments of a country records flows of money from:

a) Quotas
b) Subsidies
c) GATT
d) Exchange Controls

9. The immediate (two-day) exchange of one currency for another is a

(a) forward transaction.
(b) spot transaction.
(c) money transaction.
(d) exchange transaction.
(e) daily transaction.

10. Which of the following will cause the exchange rate of a currency to go up?

a) A balance of payments deficit.
b) An increase in investment flows into the country
c) An increase in the demand for imports.
d) Speculation that the exchange rate will fall.

11. Which of the following would cause to exchange rate of a currency to go down?

a) An increase in investment flows into a country.
b) An increase in the demand for imports
c) Speculation that the exchange rate will rise.
d) An increase in the demand for exports.

12. FDI stands for

a) foreign domestic investment.
b) foreign direct intervention.
c) foreign direct investment.
d) foreign direct intermediation.

13. The euro is:

a) a weighted average of the currencies of EU member countries.
b) a currency, the value of which is determined by demand and supply
c) a currency that is only traded offshore.
d) the currency of EU member countries.

14. The exchange rate is

(a) the price of one currency relative to gold.
(b) the value of a currency relative to inflation.
(c) the change in the value of money over time.
(d) the price of one currency relative to another.
(e) all of the above.

15. Exchange rates are determined i

(a) the money market
(b) the foreign exchange market.
(c) the stock market.
(d) the capital market.
(e) both (b) and (c) of the above.

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    (a) the money market.
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    (e) both (b) and (c) of the above.

16. When the value of the British pound changes from \$1.50 to \$1.25, then
    (a) the pound has appreciated and the dollar has appreciated.
    (b) the pound has depreciated and the dollar has appreciated.
    (c) the pound has appreciated and the dollar has depreciated.
    (d) the pound has depreciated and the dollar has depreciated.

17. The balance of payments of a country records flows of money from:
    a) imports and exports and investment flows.
    b) imports and exports and investments flows and speculative flows.
    c) imports and exports and domestic demand.
    d) imports and exports.

Q. Please, answer of the following questions

1. What is National Income accounting?
2. What influence aggregate demand of Money?
3. Is the importance of national income accounting in an economy?
4. What is balance of payment? What are its components?
5. Define and distinguish spot, forward and swap transactions. What is each likely to be used for?
6. Explain the appreciation and depreciation of national currency?
7. What is balance of payment? What are its components?

Q. Write a short note on

8. Balance of Payment
9. Money Demand
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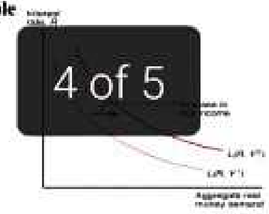
8. Balance of Payment
9. Money Demand
10. Forward Rate
11. Current Account
12. Balance of Payment
13. Price level
14. Domestic and foreign rates
15. Vehicle currency
16. Spot Rate
17. International Market players (Actors)
18. Aggregate demand vs real income
19. Price level vs price index
20. Financial Account

Q. Please, answer the following Essay question

21. Why would it be useful to examine a country's balance of payments data?
22. Why would it be useful to examine a country's balance-of-payments data?
23. Explain the role of National Income in open economy?
24. Explain the importance of fixed and forward rates in export.
25. Explain how to compute the overall balance and discuss its significance.
26. How are foreign exchange transactions between international banks settled?
27. What decision should take by economy in appreciation and depreciation of currency?

Q.28. Explain graph with suitable example



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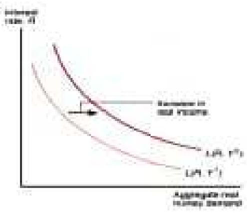

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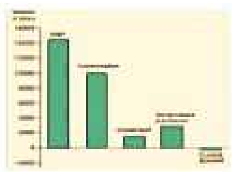

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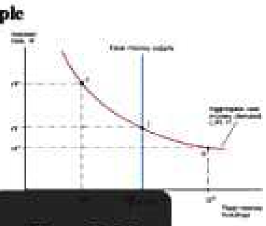

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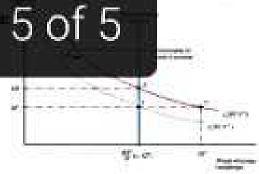

1. Distinguish between Inter Regional and Inter National Trade.
   The main differences are factor immobility, natural resources, different Markets, different currencies. The trade between different countries is called International Trade and trade between different regions of the same country is called Inter-regional trade.

2. Give the meaning of Absolute Cost Advantage.
   Every country should specialize in the production of the net commodity which it can produce more cheaply than others and vise versa.

3. What is comparative advantage?
   According to Ricardo each country will specialize in the production of those commodities in which it has the greatest advantage or the least comparative disadvantage.

4. Define The Labour Theory of Value.
   According to The Labour Theory of Value labour is the single factor in determining cost of production or relative values of the product.

5. Write the name of the book written by Bertel Ohlin.
   "The Theory of Inter-Regional and International Trade".

6. What is Factor Endowment?
   The richness in the availability of factors which keep factor prices very low is called Factor Endowment. It is the abundance of factors.

7. What is Leontief Paradox?
   This is anti thesis or an exemption to factor Endowment theory where by labour abundant countries exporting capital goods and capital abundant countries exporting labour intensive commodities.

8. What is reciprocal demand?
   It is the mutual demand for the goods of respective countries involved in trade. For example American demand for Indian goods and Indian demand for American goods.

9. Define terms of Trade.
   The terms of trade explains the conditions under which international trade takes place. It explains the benefits from trade, the terms of trade are the ratio of exports to imports.

10. Mention any three factors determining terms of trade.
    a. Nature of Products- primary products or manufacturing.
    b. Elasticity of demand or reciprocal demand.
    c. Ability to find domestic substitutes for foreign goods.

11. What is Free Trade Policy?
    According to Adam Smith Free Trade Policy refers to situation where there is no difference between domestic goods and foreign goods and no encouragement to

domestic goods and discriminatory policy on foreign goods. In general free trade policy represents free movement of goods and services between the countries without any restrictions.

12. Mention any three benefits of free trade.
    Wider markets, prevents monopolies, maximum consumer satisfaction and optimum utilization of resource.

13. What is protectionism?
    The term protection refers to a policy where by domestic industries are to be protected from foreign competition. It refers to a type of commercial policy represent more restrictions on foreign trade.

14. Give the meaning of Infant Industry Argument.
    Infant industry refers to newly established industries. They do not posses ability to face foreign firms. The protection given to such industries from foreign giant firms is called Infant Industry Argument. Nurse the baby, protect the child and free the adult.

15. What is anti dumping?
    The foreign goods dumped to domestic markets at very cheaper rates to gain market. This will affect price competition of domestic goods. Therefore to avoid the dumping of cheap foreign commodities to domestic market government impose huge tariffs or put quantitative restriction.

16. What is pauper labour argument?
    The inflow of labour intensive commodities from labour abundant countries destroys higher wages and job opportunities in capitalistic countries. Therefore to protect domestic labour from cheap labour countries is called pauper labour argument.

17. What are tariffs?