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Name..................................

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FOURTH SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2024

(CBCSS)

Economics

ECO 4C 12—INTERNATIONAL FINANCE

(2019 Admission onwards)

Time : Three Hours

Maximum : 30 Weightage

Part A

Answer **all** *questions.*

Each bunch of **five** *questions carries a weightage of* 1.

1. A key assumption of the Mundell-Fleming model is that capital flows are :

   (a) Restricted by capital controls.

   (b) Inelastic and unresponsive to interest rate differentials.

   (c) Free and mobile between countries.

   (d) Determined solely by exchange rate fluctuations.

2. The J-curve phenomenon is often observed in the short run due to :

   (a) Long-term shifts in demand and supply.

   (b) Changes in fiscal policy.

   (c) Delayed reactions of consumers and producers to price changes.

   (d) Stable interest rates.

3. Which component of the Balance of Payments represents the net flow of funds from foreign direct investments and portfolio investments ?

   (a) Current Account.

   (b) Capital Account.

   (c) Trade Account.

   (d) Financial Account.

Turn over

4. In the context of the Marshall-Lerner condition, currency depreciation will likely ... significant impact on the trade balance if :

(a) Import and export prices remain unchanged.

(b) Import and export quantities remain unchanged.

(c) Import and export quantities are elastic.

(d) Import and export quantities are inelastic.

5. According to the absorption approach, a country will likely to experience a trade deficit if ... absorption :

(a) Exceeds its savings.

(b) Is lower than its investment.

(c) Matches its foreign exchange reserves.

(d) Is equal to its government spending.

6. Capital account convertibility can be limited by :

(a) Allowing unrestricted foreign investment in the domestic stock market.

(b) Allowing individuals to freely transfer money abroad for any purpose.

(c) Implementing import quotas to control the inflow of foreign goods.

(d) Enabling citizens to exchange domestic currency for foreign currency at any ...

7. FEMA is a legal framework that replaced the :

(a) Reserve Bank of India Act.

(b) Foreign Exchange Regulation Act.

(c) Foreign Investment Promotion Board (FIPB).

(d) Securities and Exchange Board of India (SEBI) Act.

8. The NEER is a measure of the :

(a) Real value of a country's currency.

(b) Nominal value of a country's currency.

(c) Trade balance between two specific countries.

(d) Inflation rates of all trading partner countries.

9. A country following a fixed exchange rate regime may intervene in the foreign exchange market by :

   (a) Letting market forces determine exchange rates.

   (b) Allowing the currency to depreciate freely.

   (c) Buying or selling its own currency to maintain the fixed rate.

   (d) Applying trade restrictions to control exchange rates.

10. A dirty float exchange rate system is characterized by :

   (a) Central bank interventions to stabilize exchange rates.

   (b) Exchange rates that remain constant over time.

   (c) Freely fluctuating exchange rates determined by market forces.

   (d) Exchange rates that can be adjusted periodically within certain limits.

11. Under a hybrid exchange rate system, if a country's currency becomes overvalued, what action is likely to be taken by the central bank ?

   (a) Devalue the currency to adjust the exchange rate.

   (b) Allow the currency to freely float.

   (c) Introduce import quotas to control currency inflows.

   (d) Peg the currency to another country's currency.

12. The main purpose of currency futures is to :

   (a) Speculate on interest rate changes.

   (b) Hedge against exchange rate fluctuations.

   (c) Invest in foreign stocks.

   (d) Borrow foreign currencies.

13. The concept of an Optimum Currency Area (OCA) refers to :

   (a) A region where a single currency is the only legal tender.

   (b) An area where currency exchange rates are flexible.

   (c) A geographical area where adopting a common currency is economically beneficial.

   (d) A region with no economic ties to the rest of the world.

14. According to the monetary approach, an increase in the money supply in a country leads to :

(a) Currency appreciation. (b) Capital inflows.

(c) A trade surplus. (d) A trade deficit.

15. Which factor can influence changes in the nominal exchange rate ?

(a) Unilateral transfers.

(b) Government regulations on imports.

(c) Inflation differentials between countries.

(d) National income distribution.

(15 × 1/5 =

Part B (Very Short Answer Questions)

Answer any **five** *questions.*

Each question carries a weightage of 1.

16. Participants in the Foreign exchange market.

17. Hedging.

18. Unilateral payments.

19. Pegging.

20. Hybridge exchange rate.

21. Assignment problem.

22. FII.

23. Dollarization.

(5 × 1

Part C (Short Answer Questions)

Answer any **seven** *questions.*

Each question carries a weightage of 2.

24. List out the important functions of the foreign exchange market.

25. How BOP disequilibrium is adjusted under a fixed exchange rate system ?

26. What is the J-curve effect and how does it apply to trade balances and exchange rates ?

27. What is the Purchasing Power Parity theory and how does it relate to exchange rates and international trade ?

28. Prepare a brief sketch on the inflow of Foreign Direct Investment in India since 1991.

29. Elaborate on the origin and final collapse of the gold standard.

30. Examine the absorption approach to the balance of payments.

31. Analyse the effects of international capital flows.

32. What is Brexit and what were the main reasons behind the United Kingdom's decision to leave the European Union ?

33. Why the balance of payment is always in the balance ?

(7 × 2 = 14 weightage)

Part D (Essay Questions)

Answer any two *questions.*

Each question carries a weightage of 4.

34. Explain the internal and external balance mechanism with the help of the Mundell-Fleming model

35. What is the Marshall-Lerner Condition, and how does it explain the impact of currency depreciation on a country's trade balance ?

36. How the balance of payment is adjusted under a flexible exchange rate system ?

37. What are the main causes of disequilibrium in the balance of payments ? What are the important methods for correcting disequilibrium in the balance of payments ?

(2 × 4 = 8 weightage)