Course: International Economics
Assignment Questions
(Lecture 1 to 20)

Q 1: Which of the following is not included in the balance of payments?

A) final consumer goods exported to another country.

B) tourism on the part of people from other countries.

C) financial transactions such as U.S. firms purchasing foreign assets to achieve a higher rate of return.

D) increased money supply by the Federal Reserve in the United States.

Q 2: The balance of payments is a

A) flow variable measuring only transactions which involve payments of money

B) flow variable measuring all economic transactions, even if no exchange of money occurs

C) flow variable which is in equilibrium only when exports equal imports

Q 3: The value of a country's exports is listed in its balance of payments account as

A) credit

B) debit

C) payment

D) investment

Q 4: The merchandise trade balance

A) reflects trade in intangibles such as insurance and tourism

B) includes personal gifts to friends abroad

C) records the flow of financial assets such as stocks and bonds

D) equals the value of tangible products exported minus the value of tangible products imported

Q 5: In the balance of payments, services

A) are not counted

B) include only tangible products

C) are always included as a credit

D) include income earned from foreign investments

Q 6: Which of the following is not considered a unilateral transfer?

A) foreign aid from one government to another

B) income earned from foreign investments

C) personal gifts to friends in foreign countries

D) donations to foreign countries from non-government domestic charities

Q 7: When net unilateral transfers are added to the net exports of goods and services, the result is called the

A) merchandise trade balance

B) official reserve transactions account

C) balance of payments

D) balance on current account

Q 8: The capital account records international transaction involving

A) all of the following

B) intangible commodities like transportation and tourism

C) the flow of financial assets such as borrowing or lending

D) unilateral transfers

Q 9: In the balance of payments, a net inflow of capital shows up as a

A) surplus in the capital account

B) deficit in the capital account

C) surplus in the current account

D) deficit in the current account

Q 10: If a country runs a deficit in its current account, it is because

A) exports exceed imports

B) imports exceed exports

C) net unilateral transfers are negative

D) foreign currency received from exports and transfers is less than the foreign exchange needed to pay for imports and to make unilateral transfers

Q 11: Net exports refers to

A) total exports minus total imports

B) total imports minus total exports

C) exports of merchandise minus imports of merchandise

D) total exports of capital minus depreciation

Q 12: In an open economy, increase in Autonomous net exports would lead to

A) Improves the Current account balance

B) Deficit in the Current Account Balance

Q 13: "The introduction of Interdependence in the model has an impact on current account balance and it will wipe out the current account deficit problem permanently". Mark this statement True or False?

A) True

B) False

Q 14: Which of the following equation included in the interdependent model?

A) $dN^a = dX^a - dM^a + M^* dY^*$

B) $dN_1{}^a = dX_1{}^a - dM_1{}^a + M_1 dY_1$

C) $dN_1{}^a = dX_1{}^a - dM_1{}^a + M_2 dY_2$

Q 15: Slope of I_1I_1 curve in a two country interdependent model is

A) m_2/s_1+m_1

B) $1/s_1+m_1$

C) m_1/s_2+m_2

Q 16: Slope of I_2I_2 curve in a two country interdependent model is

A) m_2/s_1+m_1

B) m_1/s_2+m_2

C) $1/s_2+m_2$

Q 17: $dY_1=m_1/m_2(dY_1) - 1/m_2(dN_1^a)$ in a two country interdependent model represents

A) Current account balance

B) BOP Surplus

C) Current account deficit

Q 18: In case of autonomous increase in expenditure, which policy is best to achieve all the balances (Internal and External) in the economy?

A) Expenditure Changing

B) Expenditure switching

C) No change in expenditure

Q 19: In case of autonomous switch in expenditure from home to foreign, which policy is best to achieve all the balances (Internal and External) in the economy?

A) Expenditure Changing

B) Expenditure switching

C) No change in expenditure

Q 20: In case of autonomous increase in expenditure in an interdependent model, which policy is best to achieve all the balances (Internal and External) in both the countries?

    A) Expenditure Changing

    B) Expenditure switching

    C) No change in expenditure

Q 21: In case of autonomous switch in expenditure from home to foreign in an interdependent model, which policy is best to achieve all the balances (Internal and External) in both the countries?

    A) Expenditure Changing

    B) Expenditure switching

    C) No change in expenditure

Q 22: As per the Marshall-Lerner condition, depreciation or devaluation will improve the current account balance, if

    A) The absolute sum of export and import demand elasticities is less than one.

    B) The absolute sum of export and import demand elasticities is greater than one.

    C) The absolute sum of export and import demand elasticities is equal to one.

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Q 24: In a current account balance equation: $dN = \dot{\pi}(e_1^* + e_2 - 1)$, what would be the sign of proportionate change in exchange rate ($\dot{\pi}$) in case of depreciation and when $(e_1^* + e_2) > 1$

    A) Greater than zero

    B) Less than zero

    C) Equal to zero

Q 25: The exchange rate is the

A) total yearly amount of money changed from one country's currency to another country's currency

B) total monetary value of exports minus imports

C) amount of country's currency which can exchanged for one ounce of gold

D) price of one country's currency in terms of another country's currency

Q 26: Exchange rates

A) are always fixed

B) fluctuate to equate the quantity of foreign exchange demanded with the quantity supplied

C) fluctuate to equate imports and exports

D) fluctuate to equate rates of interest in various countries

Q 27: If the U.S. dollar appreciates relative to the British pound,

A) it will take fewer dollars to purchase a pound

B) it will take more dollars to purchase a pound

C) it is called a weakening of the dollar

Q 28: If the U.S. dollar depreciated relative to the British pound,

A) British products are cheaper to import to the U.S.

B) British products are more expensive to import to the U.S.

C) the price of imported British products does not change

Q 29: The balance of payments summarizes the transactions that occur during a given time period between

A) the government of one country and the government of another country

B) the national government and local governments in the same country

C) individuals, firms, and government of one country and individuals, firms, and governments throughout the rest of the world

Q 30: The J-Curve effect contradict the relationship between

A) Appreciation and Trade Balance

B) Devaluation and Trade Balance

C) Depreciation and Trade Balance

Q 31: As per the absorption approach of BOP, if Y<A (Where Y=C+I+G+(X-M) and A=C+I+G) and (X-M) <0 then devaluation always improves current account balance only if

A) Y < Full employment level

B) Y = Full employment level

C) Y > Full employment level

Q 32: The U.S. dollar will appreciate when

A) there is a decrease in the U.S. quantity demanded of foreign exchange

B) there is a decrease in the U.S. quantity supplied of foreign exchange

C) the U.S. central bank sells dollars to purchase foreign currency

Q 33: An arbitrageur in foreign exchange is a person who

A) earns illegal profit by manipulating foreign exchange

B) causes differences in exchange rates in different geographic markets

C) simultaneously buys large amounts of a currency in one market and sell it in another market

Q 34: A speculator in foreign exchange is a person who

A) buys foreign currency, hoping to profit by selling it a a higher exchange rate at some later date

B) earns illegal profit by manipulation foreign exchange

C) causes differences in exchange rates in different geographic markets

Q 35: A floating exchange rate

A) is determined by the national governments involved

B) remains extremely stable over long periods of time

C) is determined by the actions of central banks

D) is allowed to vary according to market forces.

Q 36: A fixed exchange rate is enforced by

   A) national governments, who establish appropriate trade barriers for each country with whom they trade

   B) national governments, who manipulate gold reserves appropriately

   C) central banks, who buy and sell appropriate currencies

Q 37: Devaluation of a domestic currency

   A) is also called revaluation

   B) refers to an increase in the floating exchange rate

   C) refers to an decrease in the floating exchange rate

   D) refers to an increase in the fixed exchange rate

Q 38: The current system of international finance is a

   A) gold standard

   B) fixed exchange rate system

   C) floating exchange rate system

   D) managed float exchange rate system

Q 39: India follows Adjustable pegged system from

   A) 1973-1993

   B) 1993 onwards

   C) Never

Q 40: Regional trading bloc agreements

A) are not considered trade restrictions

B) are required by World Trade Organization rules

C) exist primarily in Russia, Africa, and South America

D) make special trade deals between countries in that region and discriminate against countries outside the region

Q 41: Which of the following are the forms of Economic Integration?

A) Free Trade Area

B) Custom Union

C) Common Market

D) All of the above

Q 42: Which of the following is the assumption of 'Maastricht Treaty'?

A) Price stability

B) Interest rate stability

C) Inflation cannot increase 1.5 percent point of the average of the three lowest inflation countries in the EU.

D) All of the above

Q 43: If the domestic interest rates exceed the foreign interest rates then as per the Mundell-Fleming model

A) Capital Outflow will occur

B) Capital Inflow will occur

C) No change in Capital

Q 44: The IS curve shows different combinations of 'r' and 'y' which give the

A) Money market equilibrium

B) Goods market equilibrium

C) Both A and B

Q 45: The LM curve shows different combinations of 'r' and 'y' which give the

A) Money market equilibrium

B) Goods market equilibrium

C) Both A and B

Q 46: IS curve shifts rightwards if there is

A) Increase in exports

B) Government Expenditure

C) Investments

D) All of above

Q 47: LM curve shifts rightwards if there is

A) Increase in money supply

B) Government Expenditure

C) Investments

D) All of above

Q 48: As per the theory of Impossible Trinity of International Trade and Finance, which of the following three cannot exist together in an economy?

I. **Fixed Exchange rate**

II. **Flexible Exchange Rate**

III. **Perfect Capital Mobility**

IV. **No Capital Mobility**

V. **Monetary Independence**

A) I, II and III

B) I, III and IV

C) I, III and V

Q 49: Which BOP approach proves that BOP disequilibrium is a temporary phenomenon?

A) Absorption Approach

B) Elasticity approach

C) Monetary approach

Q 50: Sources of Exchange rate data for the empirical analysis are

A) World Development Indicators

B) CMIE Database

C) Census of India