

MAHATMA GANDHI UNIVERSITY

B A ECONOMICS

INTERNATIONAL ECONOMICS. EC6CRT12

THE PURE THEORY OF INTERNATIONAL TRADE

- The famous statement foreign trade as "Engine of Growth" is remarked by
- Dennis Robertson b. Salvatore
- Chacholiades d. Leonitief (a)
- "If theories like girls could win beauty contest comparative advantage would certainly rate high in that it is an elegantly logical structure" is remarked by
- Haberler b. Ricardo c. Samuelson d. Ohlin ©
- Assertion (A) : Comparative advantage is not given to a country whether rich or poor once for all

Reason (R) : Comparative advantage is affected by changes in factor supply and by technical progress

Code:

- Both A and R are true and R is the correct explanation of A
- (b) both A and R are true but R is not the correct explanation of A.
- c. A is true but R is false
- d. A is false but R is true

4. The advantage in international trade is

- To have more production at lower cost
- To earn foreign exchange
- To develop external trade
- To develop internal infrastructure

Of the statements:

- 1 is correct. 2 and 3 are correct c. 4 is correct d. All are correct.
- An empirical contradictions of Heckscher-Ohlin international trade theory that international trade is based on the relative factor endowments of different countries.
 - Bison Paradox b. Keynes Paradox c. Lerner Paradox d. Lenontief paradox
- The economic doctrine that prevailed during the 17th and 18th centuries up until the publication in 1776 of the wealth of nations by Adam Smith
 - Capitalism b. Physiocracy c. Mercantilism d. Socialism
- Both the theory of absolute advantage and the theory of comparative advantages suffer from the severe draw back
 - They both depend upon utility index

- They both depend on the labour theory of values
- They both use rational expectations
- They both use symmetric information (b)
- According to Adam Smith mutually beneficial trade is based on the principle of
 - Absolute advantage b. Comparative advantage c. Internal advantage d. external advantage
- Other than David Ricardo and economist who demonstrated that mutually beneficial trade is possible when only comparative advantage exists
 - Robert Torrens b. Ellsworth c. Haberler d. Kravis (a)
- The concept of production – possibilities frontier is a constant remainder of the concept of
 - Scarcity b. Wealth c. Utility d. Supply
- The Classical Theory of international trade is mainly concerned with
 - The gains from trade b. The structure of trade c. The terms of trade d. All of the above
- Match list I with List II and Select the correct answer using the codes given below the lists:

List I

list II

- | | |
|-----------------------------|---|
| • Alfred Marshal | 1. The effect of devaluation on balance of payments |
| • Marshall-Lerner condition | 2. Offer curve |
| • Robert A. Mundell | 3. Purchasing power parity theory |
| • Gustav Cassel | 4. Monetary approach to balance of payments |

Codes:

	A	B	C	D	
a.	2	1	4	3	
b.	2	1	3	4	
c.	1	2	3	4	
d.	1	2	4	3	(a)

13. Which one of the following is not an assumption of Heckscher Ohlin theorem of international trade?
- Differences in factor endowments of two countries
 - products in the two countries are identical
 - production function are identical
 - Commodity price determine factor prices (b)

14. The word 'PERIPHERY' in international economics refers to.
- Areas situated on the boundaries of USA
 - Developed countries of the world
 - Areas near the developed countries of the world
 - Less developed countries of the world (d)
15. Which one of the following is correct in respect of the concept of Species flow price mechanism?
- It is a mechanism evolved by Harberler to restore equilibrium in balance of payments
 - It is a mechanism for purchasing gold from abroad
 - It is a mechanism devised by Marshall - Lerner to check fluctuations in exchange rate.
 - It is propounded by David Hume to disregard the merchantilists who believed it useful to accumulate gold in the country as War chest (d)

Use the following table and answer questions 16-19

(Production possibilities per unit of Economic Resources)

	Food	Clothing
Country A	6	24
Country B	10	30

16. which of the following statements is true?
- Country a has an absolute advantage in the production of both food and clothing
 - Country B has an absolute advantage in the production of both food and clothing
 - Country A has an absolute advantage in food and country B has an absolute advantage in clothing. (b)
 - Country B has an absolute advantage in food and country has an absolute advantage in clothing (b)
17. In country A, the opportunity cost of a unit of food is
- 4 units of clothing
 - 6 units of clothing
 - 24 units of clothing
 - 1 units of clothing
- (a)
18. According to the table
- country A has a comparative advantage in food
 - Country B has a comparative advantage in food

- c. Country A has a comparative advantage in clothing
- d. country B has a comparative advantage in food and clothing (C)

19. According to the principle of comparative advantage

- a. Country A should specialize in food and country B should specialize in clothing.
- b. Countries A and B should each continue to produce both food and clothing.
- c. Country A should specialize in clothing and country B should specialize in food
- d. Country B should specialize in clothing and country A should specialize in food (c)

20. Which of the following is/are among the assumptions of the theory of comparative cost?

- I. Perfect competition
- II. No costs of transport
- III. Freedom of trade from artificial restriction

IV. An unlimited number of countries

- a. I, II b. II, III c. I, II, III, d. I, II, III, IV (c)

21. The number of effects of tariff as listed by Kindleberger

- a. 5 b. 6 c. 7 d. 8 (d)

22. Match List I with List II and choose the correct answer using the codes given below:

	List I	List II
A.	B Kravis	1. Factor price equalization theorem
B.	Williams	2. The product life cycle Hypothesis
C.	T. M Rybezynski	3. The vent for surplus approach
D.	Vernon	4. Availability doctrine

Codes

	A	B	C	D
a.	3	4	2	1
b.	3	1	2	3
c.	4	2	1	3
d.	4	3	1	2

(d)

23. International specialization is advantageous because
- The production of different commodities needs different types of resources (factors of production) in different proportions.
 - The different regions of the world are differently endowed with various kinds of economic resources.
 - The international mobility of factors such as land, labour, and capital is extremely limited.
 - All the above.
24. Classical economic adopted which of the following criteria of measuring the gains from trade accruing to an individual country
- Reduction in the cost of production
 - Enhancement of the real income
 - The nature of terms of trade
 - All the above (d)
25. Who among the following is not connected with the theory of optimum currency area?
- Mundell
 - Peter Kenen
 - Wood
 - Machlup (d)
26. Which of the following is true with regard to the theory of optimum currency area?
- The theory was propounded by the modern economists
 - The theory is an outcome of the fixed versus flexible exchange rate controversy
 - The theory offers a solution for the stabilization policy along with floating exchange rates in the set-up of independent monetary system
 - All are true (d)
27. Who are the prominent contributors to the theory of Customs Union?
- Viner and Vanake
 - Hicks and Allen
 - Robertson and Morris
 - Arthur and Smith (a)
28. Match List I with list II and select the correct answer using the codes given below:

	List I	List II
A.	Rybczynski	1. The effect of tariffs on factor prices

- | | | |
|----|---------------------|--|
| B. | Metzler effect | 2. The effect of factor growth on production and trade |
| C. | Stopler - Samuelson | 3. The effect of tariffs on domestic prices. |
| D. | Immiserising growth | 4. The effect of growth on terms of trade. |

Codes

	A	B	C	D
a.	2	3	1	4
b.	4	3	1	2
c.	4	1	3	2
d.	2	1	3	4

29. Suppose the India can produce either 2 bicycles or 10 calculators with a unit of resource, and the Pakistan can produce either 1 bicycle or 8 calculators.
- Pakistan has a comparative advantage in calculators
 - Pakistan has an absolute advantage in bicycles
 - India has comparative advantage in calculators
 - Pakistan has an absolute advantage in calculators (a)
30. The Bretton Woods system
- Preceded the gold standard
 - Was identical to the gold standard
 - Was established after world war II
 - Lasted until 1982
31. Which of the following are relevant to the explanation of secular deterioration of terms of trade of developing countries as presented by Raul Prebisch?
- Low income elasticity of demand for primary products
 - Structure of markets for manufactured goods is more monopolistic than that for primary goods
 - Increase in productivity resulting from technical progress has not been reflected in lower prices of industrial goods.
 - Quality of manufactured goods has risen substantially

Select the correct answer using the codes given below:

a. 2, 3 and 4 b. 1, 3 and 4 c. 1, 2 and 4 d. 1, 2 and 3 (d)

32. International trade theory as a special field of economic inquiry was first systematically developed by a group of economists now referred to as the
- a. Classical economics b. Keynesian economists c. New classical economists
d. Monetarists
33. The classical economists focussed their attention primarily on
- a. The gains from trade b. Asymmetric information c. Protection d. Fiscal policy.
34. The opportunity cost theory of international trade is associated with
- a. Marshall b. Hicks c. Adam Smith d. Gottfried Haberler (d)
35. The intersection of the offer curves of the two countries determines the equilibrium
- a. Welfare b. Terms of trade c. Savings d. Income (b)
36. Assertion (A): Factor price equalization theorem deals with the effect of trade on factor prices.
Reason (R): Trade in goods has no effect on factor prices.

Codes:

- a. Both A and R are true and R is the correct explanation of A
b. Both A and R are true but R is not the correct explanation of A
c. A is true but R is false
d. A is false but R is true (C)

37. Assertion (A) : Heckscher - Ohlin theory invalidates the classical theory of comparative costs
Reason (R): Heckscher - Ohlin theory goes behind the comparative cost theory

Codes:

- a. Both A and R are true and R is the correct explanation of A
b. Both A and R are true but R is not the correct explanation of F
c. A is true but R is false
d. A is false but R is true.

38. Match the List I with List II correctly and select your answer using the codes given below:

List I

List II

- | | |
|--|--|
| A. Stolper - Samuelson Theorem | 1. Explanation of Comparative advantage of trade |
| B. Heckscher - Ohlin Theorem
distribution | 2. Examines the effect of trade/tariff on income
distribution |
| C. Greesham' law | 3. Th effect of tariff on domestic prices |
| D. Merzler effect | 4.States bad money drives good money out of circulation |

Codes:

	A	B	C	D	
a.	2	3	1	4	
b.	4	3	2	1	
c.	2	1	4	3	
d.	4	3	1	2	(c)

39. In International economics we use extensively the tools of
- Micro economics
 - Macro economics
 - Neither micro economics nor macro economics
 - Both micro economics and macro economics but we also extend, adapt and intergrate them
- (d)
40. With which of the following topics does international economics deals?
- The pure theory of trade
 - the theory of trade policy
 - Balance of payments and its adjustments
 - All of the above
- (d)
41. Mercantilism, as an economic doctrine is against
- Store of precious metals like gold and silver
 - Free trade
 - Favorable trade balance
 - Restricting imports
42. Adam Smith Views on trade is reaction against
- Classical view on trade

- b. Mercantilist view on trade
 - c. Ricardo's view on trade
 - d. J. B. Say's view on trade. (B)
43. The singer - Prebisch theory maintains that
- a. Less developed countries suffer a welfare loss from secular decline in terms of trade due to primary product exports.
 - b. Less developed countries always gain in trade when they trade with developed countries.
 - c. Less developed countries lose in terms of welfare but gain in terms of foreign exchanges.
 - d. Dependence upon trade for development is not harmful to less developed countries (a)
44. Denoting the prices of capital and labour by P_k and P_L respectively and countries by A and B If $(P_k/p) > A > B$
- a. Country B is relatively labour abundant
 - b. Country A is relatively labour abundant
 - c. Country A is relatively capital abundant
 - d. Relative factor abundance is indeterminate (b)
45. Who has applied Smith's "Vent for surplus" theory to UDCs for measuring the effects of gains from international trade.
- a. Scammell b. Myint c. Machlup d. Meade (b)
46. One or more of the following economists seemed to have argued that international trade was detrimental to the industrialization of the developing countries.
- 1. Gunnar Myrdal 2. Raul Prebisch 3. Harberler 4. David Ricardo

Select the correct answer using the codes given below:

- a. 2 and 3 b. 3 and 4 c. 1 and 4 d. 1 and 2 (d)

47. Assertion (A): The Richardian theory of comparative costs based on the labour theory of value

Reason (R): Labour theory of value holds good in domestic trade, but breaks down when applied in international trade.

Codes:

- a. Both A and R are true and R is the correct explanation of A
- b. Both A and R are true but R is NOT the correct explanation of A

- c. A is true but R is false
- d. A is false but R is true

48. Match List 1 and List II correctly and select your answer using the codes given below

List I	List II
A. Adam Smith	1. Modern theory of international trade
B. David Ricardo	2. Absolute cost theory
C. Bertil Ohlin	3. Purchasing power parity theory
D. Gustav Cassel	4. Comparative cost theory

Codes

	A	B	C	D	
a.	2	4	1	3	
b.	3	1	4	2	
c.	1	2	3	4	
d.	4	3	2	1	(a)

49. Prebisch - Singer thesis enunciates that an important factor inhibiting growth of developing countries has been

- a. The secular deterioration in terms of trade experienced by them in commodity trade
- b. High population growth rate
- c. Lack of effective demand in the domestic economy
- d. Low rate of domestic savings and investments (a)

50. The theory of purchasing power parity holds that the exchange rate between two currencies tends to be in the ratio of their respective

- a. Domestic purchasing
- b. Nominal incomes
- c. Value of exports
- d. Value of imports.

51. Which of the following statements is not correct?

- a. Trade between two countries can take place when their supply and demand conditions are identical

- b. Trade between two countries can take place with different supply conditions and similar demand conditions.
- c. Trade between two countries can take place with identical supply conditions and similar demand conditions.
- d. Trade between two countries can take place with different supply and demand conditions (a)

52. A closed economy is an economic system which is

- a. Self- reliant
- b. Socialist
- c. Capitalist
- d. Completely isolated from other such system (d)

53. Autarky is a state of

- a. Trade between friendly nations
- b. No trade between nations
- c. Trade between neighbours
- d. No trade because no gain at all from trade (d)

54. Assertion (A) : International trade along the lines of comparative advantage improves allocative efficiency of existing resources.

Reason (R) : International trade is an engine of growth Codes :

- a. Both A and R true and R is the correct explanation of A
- Both A and R are true but R is not the correct explanation of A
- A is true but R is false
- A is false but R is true. (a)

55. India is a net exporter of hand made carpets and an importer of high-tech products like computer memory chips and printers. This pattern of Indian trade is explained by the

- a. Ricardian theory
- b. Heckscher – Ohlin theory
- c. Labour theory of value
- d. Purchasing power of parity theory (b)

56. Match List I with II and choose the correct answer using the codes given below.

List I	List II
The theory of Immiserising growth	1. Emmanuel
Secular Deterioration Thesis	2. Osvaldo Sunkel
Theory of Dependence	3. Prebisch – Singer
Theory of Exchange	4. Jagdish N Bhagwati

Code:

	A	B	C	D
a.	4	3	1	2
b.	4	3	2	1
c.	3	4	1	2
d.	3	4	2	1

57. The Prebisch – Singer hypothesis was originally limited to the rather direct and empirical statistical problem of the

- a. Barter terms of trade
- b. Export – led growth
- c. Export substitution
- d. Export pessimism (a)

58. The Technological Gap model of international trade is associated with

- a. veblen
- b. Posner
- c. Kravis
- d. Leontief (b)

59. Match List I and List II and choose the correct answer using the codes given below

List I	List II
• Mundell and Harry G. Johnson	1. Purchasing power parity theory
• Sidney S Alexander	2.. Elasticity approach to devaluation
• Marshal – Lerner	3. Income – absorption approach
• Gustav Cassel adjustments	4. Monetary approach to balance of payment

Code:

A	B	C	D
3	2	1	4
•	<u>3</u>	<u>1</u>	<u>2</u>
•	<u>2</u>	<u>1</u>	<u>3</u>
1	2	3	4

60. Match List I with List II and choose the correct answer using the codes given below

List I	List II
• Factor Price Equalization Theorems developing country	1. Economic expansion and trade may harm the
• The Product Life Cycle Model between countries.	2. Free international trade equalizes factor prices
• The Theory of Immiserising Growth	3. An innovative product in an advanced country
• Secular – Deterioration Thesis	4 . LDCs had to export increasing amounts of their primary products in exchange for imports of manufactured goods from the industrially advanced countries.

Codes:

	A	B	C	D
a.	2	3	1	4
b.	2	3	4	1
c.	3	2	4	1
d.	3	2	1	4

61. Match List I with List II and choose the correct answer using the codes given below the lists

List I	List II
• Supply side of international trade	1. David Ricardo
• Demand side of international trade	2. Bastable and Alfred Marshall
• Opportunity cost of international trade	3. Haberler
• Real cost theory of international trade	4. Alfred Marshall and Edgeworth

Codes:

	A	B	C	D	
a.	1	4	2	3	
b.	1	4	3	2	
c.	4	1	2	3	
d.	4	1	3	2	(b)

62. Glorified Haberler gave a new life to the comparative cost theory by restating the theory in terms of

- a. Non – competing groups
- b. Variable cost of production
- c. capital charges
- d. Opportunity cost (d)

63. In the two-goods Ricardian trade model, complete specialization in production occurs in free trade equilibrium because

- a. The production possibility frontier satisfies increasing opportunity cost.
- b. There are diminishing returns to the factor of production/
- c. There are increasing returns to the factor of production.
- d. The production possibility frontier satisfies constant opportunity cost.

64. A country pursuing a policy of “free trade” does not

- a. impose customs duties.
- b. Prohibit trading of explosives and armaments.
- c. Impose non-tax restrictions on permitted imports and exports.
- d. Regulate the inflow of labour from abroad (a)

65. The Heckscher – Ohlin theory of trade assumes

- a. Perfect competition in the product markets but not in the factor markets.
- b. Perfect competition in the factor markets but not in the product markets.
- c. Perfect competition in both product and factor markets.
- d. Unemployment in the labour market (c)

66. “International trade is but a special case of interlocal or inter-regional trade” Whose statement is this?

a. Richardo b. Heckscher c. Taussig d. Ohlin (d)

67. The direction of trade is determined by

a. Comparative advantage b. Absolute advantage c. Both (a) and (b) d. The exchange rate (a)

68. Before independence India's foreign trade was characterized by.

a. Import of manufactured goods
b. Import of primary commodities
c. Export of manufactured goods
d. All of these (a)

69. The purpose of International trade is

a. To correct imbalance in payments
b. To encourage exports
c. To increase national income
d. To promote international understanding (c)

70. Consider the following statements:

Assertion (A): Heckscher – Ohlin trade theory replaced the classical comparative cost theory of international trade.

Reason (R) : Heckscher – Ohlin trade theory reveals several modern factors than the classical international trade.

Now select your answer according to the coding scheme given below:

- Both (A) and (R) are true and (R) is the correct explanation of (A)
- Both (A) and (R) are true and (R) is not the correct explanation of A
- (A) is true but (R) is false
- (A) is false but (R) is true

71. The principle of comparative advantage would be most closely related to a study of

a. The factors of production
b. Foreign investment
c. International trade
d. Specialization of labour (d)

72. Modern theory of international trade was formulated by
- a. Heckscher – Ohlin
 - b. Kindleberger
 - c. Samuelson
 - d. Jacob Viner (a)
73. The commodity in which a country has the least absolute disadvantage represents in area of
- a. Comparative advantage
 - b. Comparative disadvantage
 - c. Absolute advantage
 - d. None of the above (b)
74. Ricardo's doctrine of Comparative cost advantage is based on
- a. The opportunity cost theory
 - b. The labour theory of value
 - c. The law of diminishing returns
 - d. All of the above (b)
75. The opportunity cost theory assumes that
- a. Labour is the only factor of production
 - b. Labour is homogenous
 - c. Cost of production is measured in terms of labour
 - d. None of the above (c)
76. With trade, specialization in production is likely to be
- a. Complete with increasing costs and incomplete with constant costs
 - b. Complete with constant costs and incomplete with increasing costs.
 - c. Complete with constant and increasing costs
 - d. incomplete with both constant and increasing costs (b)
77. According to Ohlin, International trade arise owing to the following reasons
- a. Differences in factor endowments
 - b. Absence of trade restrictions
 - c. Differences in relative commodity prices
 - d. To dispose off the surplus production (a)

78. In which of the following situations, international trade will not take place?

- a. Absolute differences in production cost
- b. Equal differences in production cost
- c. Comparative differences in production cost.
- d. None of the above (b)

79. The principles of comparative cost advantage is the basis of

- a. Local trade
- b. International trade
- c. National trade
- d. All trades

80. The classical theory of international trade is based on

- a. Equilibrium theory of value
- b. Surplus theory of value
- c. Value in – use and value in exchange
- d. Labour theory of value (d)

81. The Mercantilists held the following view international on trade

- a. A country should maintain ‘favourable balance of trade’
- b. A country should have ‘favaourable balance of payments’
- c. Invisible items of imports should be smaller.
- d. Indivisible items of exports should be larger (a)

82. In Ricardo’s view, which of the following were the causes of comparative cost difference?

- a. Techonological advancement
- b. Profit differences
- c. Differences in labour costs of production.
- d. All of the above.

83. Assume that countries A and B only produce the following quantities of X and Y

	Units of X	or	Units of Y
Country A	12		16
Country B	8		8

If each country specializes in accordance with the law of comparative advantage the terms of trade will be

- 1 unit of X for 11/13 units of Y
- 1 Unit of X for 2 units of Y
- 1 Unit of X and 1 unit of Y
- Between 1 and 11/3 units of Y for 1 unit of X (d)

84. The quantity of other goods that must be sacrificed to produce one more unit of a good

- a. Private cost b. Social cost c. Opportunity cost d. External cost (c)

85. Trade in goods made with in the same industry

- a. External industry trade
- b. Parallel industry trade
- c. Neighbour industry trade
- d. Intra industry trade.

85. The root cause as to why international trade occurs lies in the

- a. Difference in costs
- b. Difference in price
- c. Difference in supply
- d. Difference in tastes.

86. A principle, which states that countries specialize in producing and exporting goods that, they produce at a lower relative cost than other countries.

- a. Principle of absolute cost advantage
- b. Principal of comparative cost advantage
- c. Principle of free trade
- d. Principle of gains from trade (b)

87. There are certain differences in respect of cost conditions of commodities exchanged in international trade. There are:

- a. Equal difference in cost
- b. Absolute difference in cost
- c. Comparative differences in cost

d. All the above.

88. For extending general equilibrium theory to the international trade, which element Ohlin introduced in it?

- a. Time b. Market c. Space d. Price (c)

90. According to Ohlin, the comparative cost differences arises because of

- a. Labour cost difference
b. Factor endowment differences in different countries.
c., Exchange rate difference
d. Non of the above (b)

91. Vernon's product cycle theory is based on the experience of

- a. United States b. India c. Japan d. Russia (a)

92. David Ricardo established the famous law of comparative advantage in

- a. 1917 b. 1817 c. 1791 d. 1718 (b)

93. *"It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy"*. This is remarked by

- a. John Stuart Mill b. Adam smith c. David Ricardo d. David Hume
(b)

94. The first theoretical contribution to the theory of optimum currency area was given by

- a. Mundell b. Ellsworth c. Scammell d. Sodersten (a)

95. Richard's theory of comparative advantage is based on

- a. Reserve army of labour
b. Economies of scale
c. Scale barriers
d. Labour theory of value (d)

96. In order to overcome the problems caused by the labour theory of value, Haberler developed his theory of

- a. Marginal opportunity cost
b. Marginal social cost
c. Preferential opportunity cost

d. Pure opportunity cost

97. Haberlers theory of opportunity cost is represented by\

a. Indifference curves

b. Iso - quants

c. Reaction curves

d. Production possibility curvs

98. The first empirical verification of Ricardian theory was made in 1951 by

a. J. Bhagwati b. C. P. Kinleberger c. G. Haerler d. Mc. Dougal (d)

99. The first empirical test of Heckscher - Ohlin theory was conducted by

a. Richard A. Caves b. Young c. Leontief d. Adam Smith (C)

100. "Defence is better than opulence" is remarked by

a. List b. P. T. Ellsworth c. Haberler d. Adam Smith (d)

101. To promote a favourable trade balance the Mercantilists advocated

a. *Laissez faire* policy

b. Market economy

c. Closed economy

d. Government regulation of trade (d)

102. Price - Specie flflow doctrine is associated with the name of

a. J. S. Mill b. Ricardo c. David Hume d. Adam Smith (c)

103. The first comprehensive attempt to verify the Heckscher - Ohlin model was made by Wassily Leontief in.

a. 1953 b. 1935 c. 1955 d. 1886 (a)

104. The purpose of international trade is :

a. To strengthen international relations

b. To enhance exports

c. To get consumers surplus through imports

d. To increase national income (d)

105. The Heckscher - Ohlin theory focuses on the difference in relative

- a. Endowment of factors
- b. Input prices
- c. Advertisement cost
- d. Productivity differential (a)

106. *Leontief paradox* tries to invalidate the

- a. Theory of comparative cost
- b. Theory of reciprocal demand
- c. Heckscher - Ohlin theorem
- d. Theory of absolute advantage.

107. A common cause of comparative advantage arises when economies have different

- a. Cultures
- b. Income levels
- c. Factor endowments
- d. Fertility differences.

108. Under which one of the following conditions will there be the possibility of trade between two countries whose factor endowments are identical?

- a. When there are differences in tastes and preferences of the consumers in the two countries.
- b. When there are differences in commodity prices in the two countries.
- c. When there are differences in commodity prices in the two countries.
- d. When production functions are the same (c)

109. The Ricardian theory of comparative advantage relates to

- a. Short - run outcome
- b. Long - run outcome
- c. Intermediate outcome
- d. All the above

110. The pure theory of international trade is called so because.

- a. It is based on unrealistic assumptions
- b. It is based on deductive propositions.

- c. Monetary aspects are kept outside the scope of analysis
- d. It deals with static variable.

111. which one of the following assumptions is the most important assumption in the Heckscher - Ohlin theorem of international trade.

- a. Two- factor model b. Two commodities
- c. No tariff d. Constant tastes (a)

112. Who has criticized the 'Vent for surplus' theory as a "surviving of the mercantile theory"?

- a. J. s. Mill b. Kravis c. Taussig d. Ohlin (a)

113. In heckscher Ohlin theory of international trade, the most important source of difference in relative commodity prices between national is a difference in

- a. Factor endowments
- b. Technology
- c. Tastes
- d. Demand conditions. (a)

114. The difference between the value of exports and the value of imports of the country is its

- a. Balance of payments
- b. Balance of trade
- c. Favourable balance of trade
- d. Unfavourable balance of trade

115. Balance of payment is

- A. A statement of systematic record of all economic transactions between one country and the rest of the world.
- B. payments of include all transactions current as well as capital.

Of the statements:

- a. A and B are correct
- b. A and B are false
- c. A is false and B is correct
- d. A is true and B is false

116. Capital account in the balance of payments of a country does not include which one of the following

- a. Foreign investment
- b. External assistance
- c. Investment income.
- d. NRI deposits

(c)

117. The deficit of surplus in the Balance of payments can be measured by the net balance of the

- a. Current account
- b. Capital account
- c. Allocation of SDRs
- d. All the above.

118. Money, which flees quickly from country to country in response to better earnings or in apprehension of adverse circumstances, is called.

- a. Hard money
- b. Hot money
- c. Soft money
- d. Cold money

(b)

119. Exports are included in which of the following categories?

- a. Merchandise exports
- b. Invisibles
- c. Current account
- d. Transfer payments

Select the correct answer using the codes given below

Codes

- a. 1 2 and 3
- b. 2 and 3
- c. 3 and 4
- d. 1.2 and 4

(a)

120. Consider the following statements:

The Indian Rupee is fully convertible

- 1. In respect of current account of balance payment
- 2. In respect of capital account of balance of payment

3. In to gold

which of the statements is/are correct?

- a. 1 alone b. 3 alone c. 1 and 2 d. 1, 2 and 3 (a)

121. The rupee was made convertible on the current account of the balance of payments in

- a. July 1991 b. April 1992 c. August 1994 d. April 1995 (c)

122. The following is laid down as conditions for improving the balance of payments of a country:

The sum of elasticity's of the demand at home for country's imports and the demand abroad for its exports be greater than one, if devaluation is to improve the balance of payment. Which one of the following economist/economists lays down the above condition?

- a. Heckscher - Ohlin b. Marshal - Lerner c. Haberler d. J. S. Mill (b)

123. The pattern of India's exports indicates that

- a. Traditional items like raw jute, raw cottons, tea and skins are growing in importance.
b. Both traditional and non-traditional items are growing in importance.
c. Non-traditional items like engineering goods, handicrafts, iron ore and chemicals are growing in importance.
d. Neither traditional items nor the non traditional items have much of trade significance.
(c)

124. Exchange rate of which of the following currencies falls because of persistent balance of payments deficit

- a. Gold currency b. Hard currency c. Silver currency d. Soft currency (d)

125. Tied loans are generally objected to on which of the following grounds?

- a. They have adverse effects on the balance of payments of a country.
b. They make the currency of the borrowing country over valued.
c. They depart from the welfare maximising principle which calls for borrowing in the cheapest market for capital and buying in the cheapest market for goods
d. They are at higher rates of interest and therefore involve higher debt servicing charges.
(c)

126. Consider the following statements

The credit items in the balance of payments account are

1. Merchandise imports

2. Merchandise exports
3. Investment income
4. Payment for services rendered by foreigners.

What is the statements given above are correct

- a. 1 and 2 b. 2 and 3 c. 3 and 4 d. 1, 2 and 3 (d)

127. If a country 'devalued' its currency it would be having

- a. Floating exchange
- b. Fixed exchange rate system
3. Filthy float
- d. Dirty float (b)

128. Assertion (A): Most of the under -developed countries face the problem of unfavourable balance of payments

Reasons (R) : The import requirements of the developing countries with respect to capital, machinery, raw materials, technical know- how go on increasing.

Now select your answer according to the coding scheme given below:

- a. Both (A) and (R) are true and (R) is the correct explanation of (A)
- b. Both (A) and (R) are true but (R) is not the correct explanation of (A)
- c. (A) is true but (R) is false
- d. (A) is false but (R) is true (a)

129. Consider the following exchange rate regimes

1. Par value system
2. Flexible and the market determined exchange rate system.
3. Basket pegged regime
4. Liberal exchange rate managed system

The correct sequence of these in India is

- a. 2-3-4-1 b. 1-2-3-4 c. 1-3-2-4 d. 1-3-4-2 (d)

130. Which one of the following methods is being adopted by the RBI to neutralize the impact of increasing foreign exchange reserves on inflation in India?

- a. Contracting the supply of money through sale of securities

b. Purchasing foreign exchange from the authorised dealers and sterilising the impact of increase in M3 through sale of securities.

c. Importing larger quantities of goods and services

d. Depositing foreign exchange with the IMF (b)

131. Tobin tax is a tax on

a. Invisibles

b. Cross border capital

c. Capital gains

d. Profit(b)

132. India's share in world trade since 1950

a. Has been raising

b. Had been constant

c. Has been declining

d. Has shown a mixed trend.

133. Under flexible exchange rate system, the exchange rate is determined by

a. The Central Bank of the country

b. The forces of demand and supply in the foreign exchange market.

c. The price of gold

d. The purchasing power of currencies (b)

134. which of the following is known as "Footloose" industry

a. Leather

b. Garments

c. Electronics

d. Tourism

135. In the foreign trade of a country which of the following must always balance?

a. The balance of trade

b. the balance of current account

c. The balance of current account minus the balance of capital account

d. The balance of payments (d)

136. If disequilibrium in the balance of payments is caused by persistent, deep-rooted dynamic changes which slowly take place in the economy over a long period of time, it is known as

a. Cyclical disequilibrium

b. Secular disequilibrium

c. Structural disequilibrium

d. None of the above (b)

137. The concept of foreign trade multiplier seeks to gauge the effects of a change in a country's foreign trade on

- a. Demand and supply
- b. balance of trade and balance of payments
- c. National income and employment
- d. Inflation and deflation (c)

138. The terms adjustable pet, crawling peg and wider band are closely related with

- a. Input -output analysis
- b. Exchange rate systems
- c. Free convertibility of currency
- d. Globalization (b)

139. The exchange rate movement which is analogically described as the '*Snake in the tunnel*' moves having ups and down within a definite range is called.

- a. Adjustable peg exchange rate system
- b. Crawling peg exchange rate system
- c. Wider band exchange rate system
- d. None of the above (c)

140. The monetary approach to the problem of balance of payment deficit came into the limelight in the

- a. 1950's
- b. 1960's
- c. 1970's
- d. 1990's (c)

141. Balance of payments

- a. Is always in deficit
- b. Is always favourable
- c. Is partly favourable and partly in deficit
- d. always balances (d)

142. The Smithsonian Agreement, signed in 1971, was the IMF's final and successful attempt to retain the core of the Bretton Woods System, namely

- a. Gold standard rules.

2. International free trade

3. Flexible exchange rates

d. Fixed exchange rates (d)

143. The biggest contributor to the deficit in the balance of payments in India's foreign trade has been the balance of

a. Trade b. Invisibles c. Capital movements d. None of the above (a)

144. The Bretton Woods system

a. Preceded the gold standard

b. Was identical to the gold standard

c. Was established after world war II

d. Lasted until 1982

145. The existing exchange rate system is best described as a

a. Gold standard

b. System of fixed exchange rates

c. System of flexible exchange rates

d. Managed float (d)

146. "If the sum of the elasticities of exports and imports is less than one, any devaluation will further aggravate the deficit in the balance of payments." Who has given this view?

a. Marshall and Lerner

b. Harrod and Domar

c. Solow and Swan

d. Heckscher and Ohlin (a)

147. Export subsidies result in

a. Deficit in the balance of payments

b. Favourable balance of payments

c. Flexible exchange rate

d. Increase in employment (b)

148. Which one of the following is not a traditional export item of India?

- a. Chemicals b. Leather c. tobacco d. Tea (a)

149. The economic crises in the later half of the 1990s most seriously affected Indonesia, Thailand, Malaysia and South Korea. The cause of the crises was

- a. Mismanagement of the financial resources of the finance sector in general
b. The prolonged over-valuation of local currencies *vis-a-vis* the western currencies.
c. The down swing and recession in the western economies which earlier provided export markets to these export oriented countries
d. None of the above (b)

150. Consider the following statement: The price of any currency in international market is decided by the

1. World Bank
2. Demand for goods/services provided by the country concerned.
3. Stability of the government of the concerned country.
4. Economic potential of the country in question.

of these statements

- a. 1, 2, 3 and 4 are correct
b. 2 and 3 are correct
c. 3 and 4 are correct
d. 1 and 4 are correct (b)

151. Capital Account convertibility of the Indian rupee implies

- a. That the Indian rupee can be exchanged by authorized dealers for travel
b. That the Indian rupee can be exchanged for any major currency for the purpose of trade in goods and services.
c. That the Indian rupee can be exchanged for any major financial assets
d. None of the above (b)

152. Which one of the following transaction represents a credit entry in the current account of a country's balance of payments?

- a. Merchandise exports
b. Transportation services rendered by foreign companies.

- c. Expenditure on foreign tourists in a country.
- d. Fees paid to foreign contractors and engineers (a)

153. 'Invisible imports' will include the expenditure on (except)

- a. Foreign travel abroad
- b. Payments made in foreign exchange for the services obtained from nationals.
- c. Foreign tourists in the country.
- d. Interest on foreign capital (C)

154. India's balance of payments could be improved in the short run by

- a. An increase in demand for foreign goods
- b. Export of goods on a large scale at short notice
- c. An effective advertising campaign abroad for travel in India.
- d. Decrease in domestic consumption.

155. India's exports:

- a. Are concentrated only to a few primary commodities
- b. Are concentrated only to a few engineering goods
- c. Are demanded only by a few countries
- d. None of the above (D)

156. Match List I with List II correctly and select your answer using the codes given below:

List I List II

- | | |
|--|--|
| A. Buying and selling of home currency in the foreign exchange market by government or its authorised agency | 1. Pegging operation |
| B. Charging different prices in different markets for an internationally traded commodity | 2. Dumping operation. |
| C. The price of imports paid by local purchasers, which is more than their normal values
Free on board | 3 |
| D. Local producers of an export good receiving only the price of the good as it leaves the country | 4. Cost, Insurance and Freight (c. i. f) |

Codes :

A B C D

- a. 2 1 3 4
- b. 1 2 3 4
- c. 3 1 2 4
- d. 1 4 3 2

157. The terms of trade for a country will improve as a result of currency devaluation (where SX = export elasticity of supply, SM = import elasticity of supply, DX = export elasticity of demand, DM= import elasticity of demand) if

- a. $SX SM > DX DM$
- b. $DX DM > SX SM$
- c. $DX DM = SX SM$
- d. $SX SM / DX DM$ (c)

158. Foreign indirect investment includes

1. Global depository Receipts and Foreign Currency convertible Bonds
2. Foreign Institutional Investment
3. Non-resident External Deposits
4. Investment of a Multinational Company in a domestic power project

Of these statements

- a. 1 and 2 are correct
- b. 1 and 3 are correct
- c. 1, 2 and 4 are correct
- d. 2, 3 and 4 are correct (a)

159. The rate of exchange at equilibrium is one that maintains.

- a. The balance between imports and exports
- b. The balance of payments at equilibrium, over a certain period, without any net change in the country's foreign exhcnage reserves.
- c. The balance of payments at equilibrium with domestic deflationary policy.
- d. Satisfactory foreign - exchange -reserve at the disposal of the monetary policy

160. Which of the following items may be included in the current account part of the Balance Payments statement?

1. Merchandise exports
2. Foreign tourists' expenditure in home country.

3. Foreign short-term investment in home country

4. Banking, insurance and transport services

5. Income received on investments abroad

Select the correct answer using the codes given below:

a. 1. alone b. 1,2,3 and 4 c. 1, 2, 4 and 5 d. 1, 3 and 4 (c)

161. Assertion (A): Devaluation changes ipso facto exchange rates

Reason (R) : Revaluation is the opposite of devaluation

Codes:

- a. Both A and R are true and R is the correct explanation of A
- b. Both A and R are true but R is not the correct explanation of A
- c. A is true but R is false
- d. A is false but R is true (a)

162. Assertion (A) : Balance of payments includes balance of trade

Reason (R) : Since it includes all goods exported and imported

Of the statements"

Codes :

- a. Both A and R are true and R is the correct explanation of A
- b. Both A and R are true but R is not the correct explanation of A
- c. A is true but R is false
- d. A is false but R is true

163. Convertibility of the rupee implies.

- a. Being able to convert rupee notes into gold.
- b. Allowing the value of the rupee to be fixed by market forces.
- c. Freely permitting the conversion of rupee to other major currencies and vice versa
- d. Developing an international market for currencies in India (c)

164. Export surplus refers to

- a. Supply of and demand for foreign goods

b. Supply of and demand for invisibles

c. Exports minus imports

d. Imports minus exports

165. Rupw xoncweribiliry aims at

a. Increasing the export

b. Reducing bureaucratic control

c. Decreasing incentives for Havala market

d. All of the above

166. Considr the following statements

The effect of a tariffs is to

1. Raise the domestic price

2. Reduce consumption

3. Increase imports

which of the above statements are correct?

a. 1 and 2

b. 2 and 3

c. 1 and 3

d. 1, 2 and 3

(a)

167. The comprehensive report on stimulating the flow of foreign direct investment (FDI) infoo the country was prepared by

a. Malhotra

b. Rangarajan

c. Bimal Jalam

d. N. K. Singh (d)

168. Match List I and List II and select the correct answer using the codes givenbelow the lists

Lists I

List II

A. Unrequited receipts

1. Gifts, reparations received from foreigners.

B. Accommodating finance

2. Lending, borrowing and gold transfer

C. Transfer items

3. Commercial imports and exports

D. Autonomous items

4. Currency transfer by monetary authority

Codes:

A B C D

a 1 4 2 3

b. 4 1 2 3

c. 1 4 3 2

d. 4 1 3 2

168. Suppose, a country has adopted a freely floating exchange rate system. then, ceteris paribus, if the price level in the country rises, it leads to a

- a. Rise in the demand for the country's currency and the currency depreciates
- b. Rise in the demand for the country's currency and the currency appreciates
- c. Fall in the demand for the country's currency and the currency appreciates
- d. Fall in the demand for the country's currency and currency depreciates (d)

169. The concept of countervailing power was advanced by

- a. Watson
- b. Galbraith
- c. Robertson
- d. Lucas

170. The Government of India announces a new NRI (non-resident India) deposit scheme. This offers a very high interest rate, compared to the interest rates abroad, on foreign currency deposits by NRIs in India commercial Banks. Many NRIs in the US do invest under this scheme. Under a flexible exchange rate system, this would tend to

- a. Depreciate the value of Indian rupee against US dollar
- b. Appreciate the value of Indian rupee against US dollar
- c. Deplete the foreign exchange reserve of India
- d. Leave the value of rupees against US Dollar unchanged (b)

171. Automatic adjustments in the balance of payment under flexible exchange rates are arrived at through the process of

- a. Exchange rate depreciation
- b. Exchange rate of devaluation.
- c. Exchange controls
- d. Tariff and non Tariff restrictions.

172. Multinational is

- a. A joint venture at government level between more than two countries
- b. A company making use of foreign countries
- c. An enterprise operating in many countries

d. A joint venture at private level between more than two countries (c)

173. Which one of the following is not included in the foreign-exchange reserves of India?

a. Foreign-currency assets held by the RBI

b. Gold holding of the RBI

c. Silver holding of the RBI

d. SDRs (c)

174. India Millennium Deposits were floated in October-November 2000 by

a. The Reserve Bank of India

b. The Union Ministry of Finance

c. The State Bank of India

d. All State Governments (c)

175. Match List I with List II and choose the correct answer using the codes given below

List I	List II
A. Mudaliar committee	1. Committee on trade policies
B. Alexander Committee	2. Committee on export strategy for the eighties
C. Tandon Committee	3. Committee on Import-Export
D. Abid Hussain Committee.	4. Committee on Import Export policies

Codes:

	A	B	C	D
a.	1	2	4	3
b.	1	2	3	4
c.	4	3	2	1
d.	4	3	1	2

(d)

176. Full convertibility on trade account was introduced by the Budget for

c. I, II and III are correct

d. All are correct (a)

182. Who is the Chairman of the committee on Capital Account Convertibility?

a. S. S Tarapore b. Abid Hussain

c. Raja Chellaiah d. Narasimham (a)

183. Which one or more of the following changes, ceteris, paribus, will tend to increase a country's exports?

a. A local inflation

b. A depreciation of its exchange rate

c. A boom in foreign countries

d. A severe inflation abroad that is not matched at home (d)

184. Which of the following is international trade:

A. Trade between provinces B. Trade between regions

C. Trade between countries D. (b) and (c) of above

185. Theory of comparative advantage was presented by:

A. Adam Smith B. Ricardo

C. Hicks D. Arshad

186. Which is NOT an advantage of international trade:

A. Export of surplus production B. Import of defence material

C. Dependence on foreign countries D. Availability of cheap raw materials

189. If Japan and Pakistan start free trade, the difference in wages in two countries will:

A. Increase B. Decrease

C. No effect D. Double

190. Trade between two countries can be useful if the cost ratios of goods are:

A. Equal B. Different

C. Undetermined D. Decreasing

191. The modern theory of international trade is based on the views of:

A. Robbins and Ricardo B. Adam Smith and Marshall

C. Heckscher and Ohlin D. Saleem and Kareem

192. Foreign trade creates among countries:

A. Conflicts B. Cooperation

C. Hatred D. Both (a) & (b)

193. Net exports equal:

A. Exports x Imports B. Exports + Imports

- C. Exports - Imports D. Exports of services only
194. A tariff:
 A. Increases the volume of trade B. Reduces the volume of trade
 C. Has no effect on the volume of trade D. (a) and (c) of above
195. A tariff is:
 A. A restriction on the number of export firms B. Limit on the number of imported goods
 C. Tax and imports D. (b) and (c) of above
196. Dumping refers to:
 A. Buying goods at low prices abroad and selling at higher prices locally B. Expensive goods selling at low prices
 C. Reducing tariffs D. Sale of goods abroad at low a price, below their cost and price in the home market
197. According to Hecksher and Ohlin basic cause of international trade is:
 A. Difference in factor endowments B. Difference in markets
 C. Difference in political systems D. Difference in ideology
198. All are advantages of foreign trade EXCEPT:
 A. People get foreign exchange B. Nations compete
 C. Cheaper goods D. Optimum utilisation of country's resources
199. Two countries can gain from foreign trade if:
 A. Cost ratios are different B. Tariff rates are different
 C. Price ratios are different D. (a) and (c) of above
200. International trade and domestic trade differ because of:
 A. Trade restrictions B. Immobility of factors
 C. Different government policies D. All of the above
201. Terms of trade of developing countries are generally unfavourable because:
 A. They export primary goods B. They import value added goods
 C. They export few goods D. (a) and (b) of above
202. Term of trade of a country show:
 A. Ratio of goods exported and imported B. Ratio of import duties
 C. Ratio of prices of exports and imports D. (a) and (c) of above
203. In a free trade world in which no restrictions exist, international trade will lead to:
 A. Reduced real living standard B. Decreased efficiency
 C. Increased efficiency D. Reduced real GDP
204. Govt. policy about exports and imports is called:
 A. Monetary policy B. Fiscal policy
 C. Commercial policy D. Finance policy
205. What would encourage trade between two countries:
 A. Different tax system B. Frontier checks
 C. National currencies D. Reduced tariffs
206. "Terms of trade" between two countries refer to a ratio of:
 A. Export prices to import prices B. Currency values

- C. Exports to imports D. Balance of trade to balance of payments
207. What would encourage trade between two countries?
 A. Different tax system B. Quality control
 C. Reduced tariffs D. Fixing import quotax
208. It is drawback of protection:
 A. Consumers have to pay higher prices B. Producerrrs get higher profits
 C. Quality of goods may be affected D. All of the above
209. It is drawback of free trade:
 A. Prices of local goods rise B. Government looses income from custom duties
 C. National resources are underutilized D. (a) and (b) of above
210. Gold standard means:
 A. Currency of the country is made of gold B. Paper currency is not used
 C. Currency of the country is freely convertible into gold D. (a) and (c) of above
211. Terms of trade of a country:
 A. Mean the trade agreement between trading countries B. Is another name of exchange ratio of two currencies
 C. Show the ratio between total export earnings and import bill of a country D. Are determined by the price index of export and import goods

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B A ECONOMICS

INTERNATIONAL ECONOMICS KEY

1. A
2. C
3. B
4. B
5. D
6. C
7. B
8. A
9. A
10. A
11. D
12. A
13. B
14. D
15. D
16. B
17. A
18. C
19. C
20. C
21. D
22. D
23. D
24. D
25. D
26. D
27. A
28. D
29. A
30. C
31. D
32. A
33. A
34. D
35. B
36. C

37. A
38. C
39. D
40. D
41. B
42. B
43. A
44. B
45. B
46. D
47. C
48. A
49. A
50. A
51. A
52. D
53. B
54. A
55. B
56. B
57. A
58. B
59. A
60. A
61. B
62. D
63. C
64. A
65. C
66. D
67. A
68. A
69. C
70. A
71. D
72. A
73. B
74. B
75. C
76. B
77. A
78. B
79. D

- 80. D
- 81. A
- 82. C
- 83. D
- 84. C
- 85. D
- 86. A
- 87. B
- 88. D
- 89. C
- 90. B
- 91. A
- 92. B
- 93. B
- 94. A
- 95. D
- 96. A
- 97. D
- 98. D
- 99. C
- 100. D
- 101. D
- 102. C
- 103. A
- 104. D
- 105. A
- 106. C
- 107. C
- 108. C
- 109. B
- 110. C
- 111. A
- 112. A
- 113. A
- 114. B
- 115. A
- 116. C
- 117. B
- 118. B
- 119. A
- 120. A
- 121. C
- 122. B

- 123. C
- 124. D
- 125. C
- 126. D
- 127. B
- 128. A
- 129. D
- 130. B
- 131. B
- 132. D
- 133. B
- 134. D
- 135. D
- 136. B
- 137. C
- 138. B
- 139. C
- 140. C
- 141. D
- 142. D
- 143. A
- 144. C
- 145. D
- 146. A
- 147. B
- 148. A
- 149. B
- 150. B
- 151. B
- 152. A
- 153. C
- 154. C
- 155. D
- 156. A
- 157. C
- 158. A
- 159. A
- 160. C
- 161. A
- 162. A
- 163. C
- 164. C
- 165. D

- 166. A
- 167. D
- 168. A
- 169. D
- 170. B
- 171. A
- 172. C
- 173. C
- 174. C
- 175. D
- 176. B
- 177. A
- 178. A
- 179. C
- 180. B
- 181. A
- 182. A
- 183. D
- 184. C
- 185. B
- 186. C
- 187. .
- 188. .
- 189. B
- 190. B
- 191. C
- 192. B
- 193. C
- 194. B
- 195. C
- 196. D
- 197. A
- 198. A
- 199. D
- 200. D
- 201. D
- 202. C
- 203. C
- 204. C
- 205. D
- 206. A
- 207. C
- 208. D

- 209. B
- 210. D
- 211. D