Fourth Semester MA Economics
(Private Registration)
ECO10401-International Finance

Multiple Choice Questions

1. By definition, currency appreciation occurs when

   A The value of all currencies fall relative to gold.

   B. The value of all currencies rise relative to gold.

   C. The value of one currency rises relative to another currency.

   D. None of these

2. Theory which considers change in exchange rate with fluctuations in inflation rates is classified as

   A. liquidated power parity

   B. purchasing power parity

   C. selling power parity

   D. Mint Parity theory

3. If purchasing power parity were to hold even in the short run, then:

   A. Real exchange rates should tend to decrease over time.

   B. Quoted nominal exchange rates should be stable over time.

   C. Real exchange rates should be stable over time.

   D. Real exchange rates should be unstable over time.

4. Rule which states that similar set of goods and services produced in various countries

   should have equal price is classified as

   A. law of similar mortgage rate

B. law of one type manufacturing

C. law of one price

D. law of Equi Marginal utility

5. A floating exchange rate

A. is determined by the national governments involved

B. remains extremely stable over long periods of time

C. remains extremely unstable over long periods of time
D. is allowed to vary according to market forces

6. The term Euro Currency market refers to

A. The international foreign exchange market

B. The market where the borrowing and lending of currencies take place outside the

   country of issue

C. The countries which have adopted Euro as their currency

D. The countries which have adopted Rupee as their currency

7. Govt. policy about exports and imports is called:

A. Commercial Policy

B. Fiscal Policy

C. Monetary Policy

D. Exim Policy

8. Purchasing goods from a foreign country is called

A. Import

B. Entrepot

C. Export

D. None of these

9. The currency used to Buy imported goods is

   A. The Buyer's home currency

   B. The seller's home currency

   C. Special drawing rights

   D. IMF

10. Export of goods is called trade in

    A. Visible goods

    B. Basic goods

    C. Visible goods

    D. Invisible goods

11. It helps countries to meet deficit in BOP.

    A. World Bank

    B. WTO

    C. IMF

    D. ILO

12. Under a gold standard

    A. a nation's currency can be traded for gold at a fixed rate

    B. a nation's central bank or monetary authority has absolute control over its money

       supply

    C. new discoveries of gold have no effect on money supply or prices

    D. new discoveries of gold have effect on money supply or prices

13. Which of the following is true of foreign exchange markets?

   A.   The futures market is mainly used by hedgers while the forward market is mainly

       used for speculating.

   B. The futures market and the forward market are mainly used for hedging.

   C.   The futures market is mainly used by speculators while the forward market is

      mainly used for hedging.

   D. None of these

14. According to the Purchasing Power Parity theory, the value of a currency should

   remain constant in terms of what it can buy in different countries of

   A. Bonds

   B. Stocks

   C. Goods

   D. Mortgage

15. Eurobonds are Admired because

   A. They are less risky than Traditional Bonds

   B. European companies are considered very stable

   C. of Government regulation

   D. Of absence of Government regulation

16. The ----------------- account in BoP marks the inflow and outflow of goods and services

into a country.

   A. capital

   B. current

C. reserve

D. None of the above

17. Under Exchange rate system, there is no interference of monetary authorities to decide exchange rate.

A. fixed

B. floating

C. mixed

D. None of the above.

18. …………Theory states that the exchange rate between currencies of two countries should be equal to the ratio of the countries price levels.

.A. Interest Rate parity

B. Purchasing Power Parity

C. International Fisher Effect

D. None of the above

19. ………..bond is issued in a local market by a foreign borrower, denominated in local currency

A. foreign bond

B. euro bond

C. domestic bond

D. None of the above

20. India's foreign exchange rate system is _____

A. Fixed target of band

B. Free float

C. Mixed System

D. Managed float

21. India is facing continuous deficit in its balance of payments in the foreign exchange

   market rupee is expected to _____

   A. Appreciate

   B. Depreciate

   C. Show no specific tendency

   D. None of the above

22. In exchange rate crisis, exchange rate _____ widely.

   A. Appreciates

   B. Depreciates

   C. Devaluate

   D. Show no specific tendency

23. Most of the developing countries have now opted exchange rate.

   A. Fixed

   B. Flexible

   C. Managed Float

   D. Mixed

24. The global financial crisis started in ………………

   A. Great Britain

   B. USA

   C. UAE

   D. China

25. Consider the Mundell-Fleming model for an open economy, short-term fiscal policy is effective with:

    A. Floating exchange rate and high Labour mobility

    B. Fixed exchange rate and high capital mobility

    C. Fixed exchange rate and low capital mobility

    D. Floating exchange rate and high capital mobility

26. Exchange rate overshooting often occurs because?

    A. domestic prices adjust slowly to shifts in demand

    B. military spending during military conflicts

    C. elasticities are smaller in the short run than the long run

    D. None of the Above

27. According to the basic absorption approach, a reduction in the value of the domestic currency

    A. Will improve the trade balance through a decrease in income and output if the economy is above full employment.

    B. Will improve the trade balance through an increase in income and output if the economy is above full employment.

    C. May improve the trade balance through a reduction in direct absorption.

    D. Will improve the trade balance through an increase in income and output if the economy is below full employment.

28. The J-curve effect refers to the observation that …….

    A. GDP usually decreases before it increases after a currency depreciation

B. the trade balance usually gets worse before it improves after a currency depreciation

C. the trade balance usually gets better before it gets worse after a currency appreciation

D. All of the Above

29. International finance mainly discusses the issues related with monetary interactions of at least_____.

        A. one country

        B. two or more countries

        C. five countries

        D. two countries

30. International finance is concerned with_____

A. exchange rates of currencies

B. monetary systems of the world

C. Foreign Direct Investment

D. all of the above

31. Which exchange rate system is used by India?

A. Fixed target of band

B. Free float

C. Managed float

D. Mixed

32. Which country has a fixed exchange Rate system?

A. USA

B. Germany

C. India

D. Kuwait

33. A source of supply of foreign exchange is _____

A. Imports

B. Exports

C. Donations

D. Mortgage

34. A floating exchange rate

A. Is determined by national governments involved

B. Remains extremely stable over long periods of time

C. Is allowed to vary according to market forces

D. None of the above

35. An economist will define the exchange rate between two currencies as the

A. Amount of one currency that must be paid in order to obtain one unit of another currency

B. Difference between total exports and total imports with a country

C. Price at which the sales and purchases of foreign goods takes place

D. Totalling between total exports and total imports with a country

36. Global bond market consists of all bonds sold by issued companies, governments, or other firms

A. within their own countries

B. outside their own countries

C. to London banks

D. Stock Market

37. When was the first Eurobond issued?

A. 1983

B. 1991

C. 1973

D. 1963

38. Balance of payments of a country includes:

A. Balance of trade

B. Capital receipts and payments

C. Production account

D. Investment

39. The Purchasing Power Parity (PPP) theory is a good predictor of

A. all of the following

B. the long-run tendencies between changes in the price level and the exchange rate of

two countries

C interest rate differentials between two countries when there are strong barriers

preventing trade between the two countries

D. None of the Above

40. By definition, currency appreciation occurs when

A. the value of all currencies fall relative to gold.

B. the value of all currencies rise relative to gold.

C. the value of one currency rises relative to another currency.

D. the value of one currency fall relative to another currency.

41. The term Euro Currency market refers to

    A. The international foreign exchange market

    B. The market where the borrowing and lending of currencies take place outside the country of issue

    C. The countries which have adopted Euro as their currency

    D. The countries which have adopted dollar as their currency

42. From the following, which is not a feature of Balance of payment?

A. Systematic record

B. All Transactions

C. import and export

D. Single entry

43. From the following, which is not a component of Balance of payment?

A. Trade balance

B. Current account balance

C. Import and Export

D. Production balance

44. The _____ is also called the IMF's fixed exchange rate system

A. Gold Standards System

B. Bretton Woods System

C. Gold System

D. None of the above

45. The gold standard was the _____ universally implemented exchange rate

system

A. First

B. Second

C. Third

D. Fourth

46. _____ are often used by foreign companies engaged in manufacturing

and trading activities in India

A. Subsidiaries

B. MNCs

C. Branch Offices

D. U Form

47. IMF is headquartered in _____

A. Washington DC

B. New York US

C. Geneva Switzerland

D. UK

48. GATT stands for _____

        A.   general agreement on tariffs and trade

        B.   general agreement on transport and trade

        C.   general arrangement on trade

        D.   general arrangement on trade and Tax

49. The commonly accepted goal of the MNC is to:

        A.   maximize shareholder wealth

        B.   maximize short-term earnings

        C.   maximize international sales

        D.   minimize short-term earnings

50. .... are most commonly classified as a direct foreign investment:

        A.   Licensing agreements

        B.   Exporting transactions

        C.   Foreign acquisitions

        D.   Importing transactions

51 By definition, currency appreciation occurs when

      A The value of all currencies falls relative to gold.

      B The value of all currencies rises relative to gold.

      C The value of one currency rises relative to another currency.

D The value of one currency falls relative to another currency.

52 If purchasing power parity was to hold even in the short run, then:

A Real exchange rates should tend to decrease over time.

B Quoted nominal exchange rates should be stable over time.

C Real exchange rates should tend to increase over time.

D Real exchange rates should be stable over time.

53. Given a home country and a foreign country, purchasing power parity suggests that:

A. the home currency will appreciate if the current home inflation rate exceeds the current foreign inflation rate

B. the home currency will depreciate if the current home interest rate exceeds the current foreign interest rate

C. the home currency will depreciate if the current home inflation rate exceeds the current foreign inflation rate

D. the home currency will depreciate if the current home inflation rate exceeds the current foreign interest rate

54. Example of derivative securities includes

A Swap contract B option contract C futures contract D all of above

55. The forward market is especially well-suited to offer hedging protection against

A Translation risk exposure.

B Transactions risk exposure.

C Political risk exposure.

D Taxation.

56. Hedging is used by companies to:

A Decrease the variability of tax paid

B Decrease the spread between spot and forward market quotes

C Increase the variability of expected cash flows

D Decrease the variability of expected cash flows

57 Which of the following is true of foreign exchange markets?

A The futures market is mainly used by hedgers while the forward market is mainly used for speculating.

B The futures market and the forward market are mainly used for hedging.

C The futures market is mainly used by speculators while the forward market is mainly used for hedging.

DThe futures market and the forward market are mainly used for speculating.

58. 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

59. 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

D None of the above

60. A speculator in foreign exchange is a person who

A buys foreign currency, hoping to profit by selling it 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

D None of the above

61. 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

62 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

63 A simultaneous purchase and sale of foreign exchange for two different dates is called

A Currency devalue B currency swap C currency valuation D currency   exchange

64 The term Euro Currency market refers to

A The international foreign exchange market

B The market where the borrowing and lending of currencies take place outside the country of issue

C The countries which have adopted Euro as their currency

D The market in which Euro is exchanged for other currencies

65. International trade and domestic trade differ because of:

A Different government policies

B Immobility of factors C Trade restrictions D All of the above

66. which of the following is international trade:

A Trade between countries B Trade between regions C Trade between provinces D Both B and C

67. A bill of exchange includes.

A An order to pay B A request to pay C A promise to pay D All the above

68 International finance is concerned with_____

A. exchange rates of currencies B. monetary systems of the world C. foreign direct investment

69 India's foreign exchange rate system is _____

   A. Fixed target of band B. Free float C. Fixed system D. Managed float

70 _____ is not a characteristic of speculation.

   A. Hedging B. Risk taking C. Profit motive D. Exchange rate fluctuation

71 _____ refers to the price of one currency against another currency

   A Barter   B Exchange rate C Purchase rate D Sale rate

72 From the following, which is not a feature of Balance of payment?

   A Systematic record B All Transactions C Single entry D Double entry

73 From the following, which is not a component of Balance of payment?

   A Trade balance B Current account balance C Capital account balance D Production

   balance

74 Current account _____ will take place when credits are more and debits are less

    A Deficit B Profit C Loss D Surplus

75 The _____ is also called the IMF's fixed exchange rate system

   A Gold Standards System B Bretton Woods System C Gold System D Silver Standard

   System

76 In Bretton Woods System, the countries can also earn _____ on their dollar reserves

   A Profit B Surplus C Interest D Commission

77 Main center of Euro Currency markets are _____

   A Pune B Maxico C London D America

78) IMF is headquartered in _____

    A Washington DC B New York US C Geneva Switzerland D Avenue Du Mont Blanc Switzerland

79 GATT stands for _____

    A. 1967 B. 1935 C. 1945 D. 1947

80 Under Exchange rate system, there is no interference of monetary authorities to decide exchange rate.

    A. fixed B. floating C. mixed D. pegged

81 The balance of payments account is conventionally divided into

    A. Current Account and Capital Account

    B. Visible Account and Invisible Account

    C. Long-term capital Account and short term capital account

    D. None of the above

82 What is the full form of ASEAN?

    A Association of South East Asian Nations

    B Administration of South East Asian Nations

    C Administration of Southern Eastern Asian Nations

    D Organisation of South East Asian Nations

83 Where is the headquarters of the SAARC?

    A Manila B Kathmandu CNew Delhi D Jakarta

84 Gold standard introduced in

   A. 1913 B. 1990 C. 1876 D. 1944

85 The objectives of the International Monetary Fund (IMF) are

   A. to promote international monetary cooperation

   B. to promote exchange stability

   C. to create standby reserves

   D. all of the above

86 An investor looking at reducing his risk is known as _____.

   A. Speculator B. Hedger C. Arbitrageur D. Trader

87 SDR is an international reserve asset created by

   A. IMF B. WTO C. World Bank D. IBRD

88 Present name of GATT

   A. WTO B. GAT C. IMF D. ILO

89 The foreign direct investment includes _____

   A. tangible good B. intangible good C. intellectual property D. human resources

90 The Purchasing Power Parity (PPP) theory is a good predictor of

   A. the long-run tendencies between changes in the price level and the exchange rate of
   two countries

   B. interest rate differentials between two countries when there are strong barriers
   preventing trade between the two countries

C. either b or c

 D. none of the above

91 The Marshall-Lerner condition deals with the impact of currency depreciation on:

A. Domestic income   B. Domestic absorption   C. Purchasing power of money

balances   D.   Relative   prices

92 According to the Marshall-Lerner approach, currency depreciation will best lead to an

improvement on the home country's trade balance when the:

A. Home demand for imports is inelastic—foreign export demand is inelastic

B. Home demand for imports is inelastic—foreign export demand is elastic

C. Home demand for imports is elastic—foreign export demand is inelastic

D. Home demand for imports is elastic—foreign export demand is elastic

93 According to the J-curve effect, when the exchange value of a country's currency
appreciates, the country's trade balance:

A. First moves toward deficit, then later toward surplus

 B. First moves toward surplus, then later toward deficit

C. Moves into deficit and stays there

D. Moves into surplus and stays there

94 According to the J-curve concept, which of the following is false? That the effects of
currency depreciation on the balance of payments are:

A. Transmitted primarily via the income adjusted mechanism

B. Likely to be adverse or negative in the short run

C. In the long run positive, given favorable elasticity conditions

D. Influenced by offsetting devaluations made by other countries

95 Which of the following is true for the J-curve effect? It:

A. Applies to the interest rate effects of currency depreciation

B. Applies to the income effects of currency depreciation

C. Suggests that demand tends to be most elastic over the long run

D. Suggests that demand tends to be least elastic over the long run

96 According to the Marshall-Lerner condition, a currency depreciation is least likely to lead

to an improvement in the home country's trade balance when:

A. Home demand for imports is inelastic and foreign export demand is inelastic

B. Home demand for imports is elastic and foreign export demand is inelastic

C. Home demand for imports is inelastic and foreign export demand is elastic

D. Home demand for imports is elastic and foreign export demand is elastic

97 The extent to which a change in the exchange rate leads to changes in import and export

prices is known as:

A. The J-curve effect B. The Marshall-Lerner effect C. The absorption effect D. Pass-through effect

98 The _____ effect suggests that following currency depreciation a country's trade

balance worsens for a period before it improves.

A. Marshall-Lerner B. J-curve C. Absorption D. Pass-through

99 Systematic record of economic transactions of a country during given period of time

is known as _____.

A. ADR   B. BOP   C. GDR   D. IFRS

100 Which approach analyses a nation's balance of payments in terms of money demand and

money supply?

A. Expenditures approach   B. Absorption approach   C.   Elasticity's approach

D.   Monetary approach

Fourth Semester MA Economics (Private Registration)

ECO10401 International Finance

Multiple Choice Questions

Answer Key

1. C
2. B
3. C
4. C
5. D
6. B
7. B
8. A
9. A
10. D
11. C
12. A
13. C
14. C
15. D
16. B
17. B
18. B

19. A
20. D
21. B
22. B
23. C
24. B
25. D
26. C
27. C
28. B
29. B
30. D
31. C
32. D
33. B
34. C
35. A
36. B
37. D
38. C
39. B
40. C
41. B
42. D
43. D
44. B
45. A
46. C
47. A
48. A
49. A
50. C

51	C	71	B	91	D
52	D	72	C	92	D
53	C	73	D	93	B
54	D	74	D	94	A
55	B	75	B	95	C
56	D	76	C	96	A

57	C		77	C		97	D
58	B		78	A		98	B
59	C		79	D		99	B
60	A		80	B		100	D
61	D		81	A			
62	D		82	A			
63	B		83	B			
64	B		84	C			
65	D		85	D			
66	A		86	B			
67	A		87	A			
68	D		88	A			
69	D		89	A			
70	A		90	A			