

# 9

## CHAPTER

# INTERNATIONAL TRADE

## UNIT 1 : THEORIES OF INTERNATIONAL TRADE

### International Trade

1. International Trade is the exchange of \_\_\_\_\_ between countries and involves greater complexity compared to Internal Trade.

- (a) Goods
- (b) Services
- (c) Resources
- (d) All of the above

2. Which of the following does not represent a difference between internal trade and international trade?

- (a) transactions in multiple currencies
- (b) homogeneity of customers and currencies
- (c) differences in legal systems
- (d) none of the above

3. Which of the following is NOT the benefit of International Trade?

- (a) It is powerful stimulus to economic efficiency and contributes to economic growth.
- (b) Efficient deployment of productive resources to their best use.

- (c) Economic exploitation of under privileged countries.
- (d) Opening up of new markets results in broadening the production base.

### Theories of International Trade

4. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports?

- (a) Capitalism
- (b) Socialism
- (c) Mercantilism
- (d) Laissez faire

5. Which one of the following is the first theory of International Trade that emerged in England in the 16th Century?

- (a) Mercantilism
- (b) Absolute Cost Advantage Theory
- (c) Comparative Cost Advantage Theory
- (d) Product Life-Cycle Theory

6. Which theory suggested that the wealth of a nation consisted of gold and silver only?

- (a) Mercantilism
- (b) Absolute Cost Advantage Theory
- (c) Comparative Cost Advantage Theory
- (d) Product Life-Cycle Theory

7. Which of the following is NOT an assumption of Absolute Cost Advantage Theory?

- (a) There are two countries.
- (b) There are two commodities.
- (c) The commodities are heterogeneous.
- (d) There is only labour Cost of Production.

8. Who propounded the theory that a country should specialize in the production of goods for which it has an absolute cost advantage and then trade these goods for goods produced by another country?

- (a) Adam Smith
- (b) David Hume
- (c) Heckscher and Ohlin
- (d) Ricardo

9. The theory of absolute advantage states that

- (a) national wealth and power are best served by increasing exports and decreasing imports
- (b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
- (c) that the value or price of a commodity depends exclusively on the

amount of labour going into its production and therefore factor prices will be the same

- (d) differences in absolute advantage explains differences in factor endowments in different countries.

10. Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?

- (a) Modern theory of international trade
- (b) The factor endowment theory
- (c) The Heckscher-Ohlin Theory
- (d) None of the above

11. Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?

Labour Cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

- (a) Country A
- (b) Country B
- (c) Neither A nor B
- (d) Both A and B

12. According to the theory of comparative advantage

- (a) trade is zero-sum game so that the net change in wealth or benefits among the participants is zero.
- (b) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive

- (c) nothing definite can be said about the gains from trade
- (d) gains from trade depends upon factor endowment and utilization

13. Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X?

Labour Cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

- (a) 20 labour hours
- (b) 10 labour hours
- (c) 30 labour hours
- (d) Does not gain anything

14. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

- (a) Bangladesh has a comparative advantage in mats
- (b) India has a comparative advantage in tables
- (c) Bangladesh has an absolute advantage in mats
- (d) All the above are true

15. Comparative advantage refers to:

- (a) a country's ability to produce some good or service at the lowest

possible cost compared to other countries

- (b) a country's ability to produce some good or service at a lower opportunity cost than other countries.
- (c) Choosing a productive method which uses minimum of the abundant factor
- (d) (a) and (b) above

16. Ricardo explained the law of comparative advantage on the basis of

- (a) opportunity costs
- (b) the law of diminishing returns
- (c) economies of scale
- (d) the labour theory of value

17. Which theory of international trade identified the role of labour and capital, so-called factor endowments, as a determinant of advantage?

- (a) Theory of Absolute Advantage
- (b) Theory of Comparative Advantage
- (c) Heckscher-Ohlin theory of trade
- (d) None of these

18. The theory given by Swedish economists "Eli Heckscher and Bertil Ohlin" is also known as:

- (a) The Heckscher - Ohlin theory of trade
- (b) Factor - Endowment theory of trade
- (c) Modern theory of trade
- (d) All of the above

19. Michael Porter has described four attributes as the "diamond of national advantage". Which of the following is not a part of these four attributes?

- (a) Factor Endowments
- (b) Silver conditions
- (c) Related and Supporting Industries
- (d) Firm's Strategy, Structure and rivalry

20. Who has propounded "New Trade Theory" in the 1970's?

- (a) Paul Krugman
- (b) Norman
- (c) Dixit
- (d) All of the above

21. Which theory argues that trade leads to cost reduction and product variety. Also, a firm enjoying the

"first mover advantage" can capture economies of scale earlier than its rivals?

- (a) Product Life Cycle Theory
- (b) New Trade Theory
- (c) Factor Endowment theory
- (d) Absolute Cost Advantage Theory

22. What is the title of the book published in 1817, in which David Ricardo explained the Comparative Cost Advantage Theory?

- (a) The Wealth of Nations
- (b) Principles of Political Economy
- (c) The effect of Foreign Trade
- (d) The Leontief Paradox

## UNIT 2 : THE INSTRUMENTS OF TRADE POLICY

### Tariff : Forms and Effects

23. Protectionism is a State policy aimed to protect domestic producers against Foreign Competition through the use of \_\_\_\_\_ instruments.

- (a) Tariffs
- (b) Quotas
- (c) Non-tariff trade policy
- (d) All of the above

24. \_\_\_\_\_ refers to opening up of domestic markets to goods and services from the rest of the world by bringing down trade barriers.

- (a) Trade liberalization
- (b) Trade Globalisation
- (c) Trade Privatisation
- (d) LPG

25. A specific tariff is

- (a) a tax on a set of specified imported good.
- (b) an import tax that is common to all goods imported during a given period
- (c) a specified fraction of the economic value of an imported good
- (d) a tax on imports defined as an amount of currency per unit of the good

26. Tariff means the taxes or duties imposed on \_\_\_\_\_

- (a) Imports
- (b) Exports
- (c) Both (a) & (b)
- (d) Local Sales

27. Tariff can be based on \_\_\_\_\_

- (a) Quantity only
- (b) Value of Import
- (c) Quantity and/or value
- (d) None of these

28. When a specified amount of tariff is charged per unit of the product (e.g., ₹ 1000 per tonne of cement), then it is categorised as \_\_\_\_\_

- (a) Specific Duty
- (b) *Ad valorem* Duty
- (c) A Compound Duty
- (d) Value Duty

29. Tariff levied as a percentage of value of product is termed as \_\_\_\_\_

- (a) Specific Duty
- (b) Fixed Duty
- (c) *Ad valorem* Duty
- (d) A Compound Duty

30. The tariff rate is ₹500 per tonne plus 10 per cent of the value of the product imported. This type of tariff is termed as \_\_\_\_\_

- (a) Fixed Rate Duty
- (b) Variable Rate Duty
- (c) *Ad valorem* Duty
- (d) Compound Duty

31. What is disadvantage of specific tariff which is the fixed amount of money per physical unit or according to weight?

- (a) It discourages the import.
- (b) The Government revenue remains Unchanged irrespective of change in value of product.
- (c) It is difficult to calculate it precisely.
- (d) None of these

32. A tax applied as a percentage of the value of an imported good is known as

- (a) preferential tariff
- (b) *ad valorem* tariff
- (c) specific tariff
- (d) mixed or compound tariff

33. Which of the following is INCORRECT about *ad valorem* tariff?

- (a) It is levied as a fixed percentage of the value of the traded commodity.
- (b) It preserves the protective value of tariff an home producer.
- (c) It is similar to specific tariff.
- (d) It is one of the widely used across the world.

34. The Government has imposed tariff as under:

₹ 3000 on each solar panel plus ₹ 50 per kg on the battery.

What is the type of tariff?

- (a) Specific Tariff
- (b) *ad valorem* Tariff
- (c) Compound Tariff
- (d) Technical Tariff

35. \_\_\_\_\_ is calculated on the basis of both the value of the imported goods (an *ad valorem* duty) and a Unit of measure of the imported goods (a specific duty).

- (a) Compound Tariff
- (b) *Ad valorem* Duty
- (c) Technical Tariff
- (d) Tariff Rate Quotas

36. \_\_\_\_\_ tariffs refers to import tariffs. Which countries

promise to impose on imports from other members of two WTO. Unless the country is a part of preferential trade agreement.

- (a) MFN
- (b) MTN
- (c) CFN
- (d) CTN

37. Escalated tariff refers to

- (a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products
- (b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials
- (c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries
- (d) none of the above

38. What is the type of tariff which is set so high that no imports can enter?

- (a) Restricted Tariff
- (b) Prohibitive Tariff
- (c) Anti-Dumping duty
- (d) None of these

39. Dumping occurs when manufactures sell goods in a Foreign country \_\_\_\_\_.

- (a) Below the Sales prices in their domestic market.
- (b) Below their full average cost of the product.
- (c) Free of cost
- (d) Either (a) or (b)

40. Dumping, in international trade, is \_\_\_\_\_.

- (a) fair
- (b) unfair

(c) good

(d) none of these

41. Anti-dumping duties are

- (a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
- (b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government.
- (c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market.
- (d) Both (a) and (c) above

42. A countervailing duty is \_\_\_\_\_.

- (a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country.
- (b) charged by importing countries to ensure fair and market-oriented pricing of imported products.
- (c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies.
- (d) All of the above

43. Which of the following is an outcome of tariff?

- (a) Create obstacles to trade and increase the volume of imports and exports
- (b) Domestic consumers enjoy consumer surplus because consum-

ers must now pay only a lower price for the good.

- (c) Discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes.
- (d) Increase government revenues of the importing country by more than value of the total tariff it charges.

**44. A tariff on imports is beneficial to domestic producers of the imported good because**

- (a) they get a part of the tariff revenue.
- (b) it raises the price for which they can sell their product in the domestic market.
- (c) it determines the quantity that can be imported to the country.
- (d) it reduces their producer surplus, making them more efficient.

**45. Which of the following is not the effects of Tariff?**

- (a) By making imported goods more expensive, tariff discourage domestic consumers from consuming imported Foreign goods.
- (b) Domestic consumers suffer a loss in consumer surplus.
- (c) Tariffs create trade distortions by disregarding comparative advantage.
- (d) Tariff decreases the government revenues substantially.

**46. On import of goods, which of the following is levied?**

- (a) CGST
- (b) SGST

(c) UTGST

(d) IGST

### **Non-Tariff Measures (NTMs)**

**47. Which of the following is not a non-tariff barrier.**

- (a) Complex documentation requirements
- (b) Import quotas on specific goods
- (c) Countervailing duties charged by importing country
- (d) Pre-shipment product inspection and certification requirements

**48. Non-tariff barriers (NTBs) include all of the following except:**

- (a) import quotas
- (b) tariffs
- (c) export subsidies
- (d) technical standards of products

**49. SPS measures and TBTs are**

- (a) permissible under WTO to protect the interests of countries.
- (b) may result in loss of competitive advantage of developing countries.
- (c) increases the costs of compliance to the exporting countries.
- (d) All of the above

**50. \_\_\_\_\_ measures of NTMs refer to product-specific properties such as characteristics of the product, technical specifications and production processes.**

- (a) Financial
- (b) Standard
- (c) Technical
- (d) Non-Technical

**51. Which of the following is NOT a component of Technical measures under Non-Tariff Measures?**

- (a) Import Quota
- (b) Characteristics of the Product
- (c) Technical Specifications
- (d) Production Processes

**52. Which of the following is/are an example of Technical Barriers To Trade (TBT)?**

- (a) Food Laws
- (b) Quality Standard
- (c) Organic Certification & Eco-labelling
- (d) All of the above

**53. Which of the following is NOT an example of Sanitary and Phyto Sanitary (SPS) measures of NTM?**

- (a) Prohibition of import of poultry from countries affected by avian flu.
- (b) Residue limits for pesticides in foods
- (c) Organic Certification
- (d) All of the above

**54. Which of the following is not a measure of Non-Technical measures?**

- (a) Import Quotas
- (b) Sanitary and Phyto sanitary (SPS) measures
- (c) Price control measures
- (d) Non-automatic Licensing and Prohibitions

**55. Under tariff rate quota.**

- (a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement.

(b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate.

(c) lower tariff is charged from goods imported from a country which is given preferential treatment.

(d) none of the above.

**56. \_\_\_\_\_ is a total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period.**

- (a) Embargos
- (b) Anti-Dumping
- (c) SPS
- (d) TBT

**57. An Embargo is the most extreme form of trade barrier. This may be done due to \_\_\_\_\_.**

- (a) Political Reasons
- (b) Health Reasons
- (c) Religion Reasons
- (d) Any of the above

### **Export Related Measures**

**58. Voluntary export restraints involve:**

- (a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time.
- (b) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets.
- (c) an exporting country voluntarily restraining the quantity of goods



- that can be exported out of a country during a specified period of time.
- (d) quantitative restrictions imposed by the importing country's government.
59. Which of the following is the form of Export Subsidies and incentives?
- Grants
  - Loans
  - Equity Infusions
  - All of these
60. An export tax is a tax collected on exported goods. It may be \_\_\_\_\_.
- specific
  - ad valorem*
  - either (a) or (b)
  - always fixed
61. Due to shortage in domestic market, Government has prohibited the export of onion. This export related measure can be categorised as \_\_\_\_\_.
- Ban' on Exports
  - Export Taxes
  - Export Subsidies
  - Voluntary Export Restraints

### UNIT 3: TRADE NEGOTIATIONS

#### Taxonomy of Regional Trade Agreements (RTAs)

62. \_\_\_\_\_ are defined as grouping of countries, which are formed with the objective of reducing barriers to trade between member countries.
- Regional Trade Agreements
  - Restrictive Trade Agreements
  - Geographical Trade Agreements
  - Common Trade Agreements
63. \_\_\_\_\_ has a group of countries that have a free Trade agreement between themselves and may apply a common external tariff to other countries.
- Trading Centres
  - Free-Trade Area
  - Trading Bloc
  - Common market
64. Which term is used to describe a group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the union.
- Common Market
  - Customs Market
  - Common Union
  - Customs Union
65. \_\_\_\_\_ is a group of countries that eliminate all tariff and quota barriers on trade with the objective of increasing exchange of goods with each other.
- Customs Union
  - Free-Trade Area

- (c) Common Trade Area
- (d) Unilateral Trade Agreements

**66. Which of the following is a type of Regional Trade Agreement?**

- (a) Unilateral Trade Agreements
- (b) Bilateral Agreements
- (c) Free-trade area
- (d) All of the above

### **The General Agreement on Tariffs and Trade (GATT)**

**67. The General Agreement on Tariffs and Trade Covers \_\_\_\_\_ trade in \_\_\_\_\_.**

- (a) National, goods
- (b) International, goods
- (c) National, Services
- (d) International, Services

**68. The GATT lost its relevance by the \_\_\_\_\_.**

- (a) 1975
- (b) 1980
- (c) 1982
- (d) 1985

**69. What is the reason behind losing its relevance by GATT by the 1980's?**

- (a) Substantial Expansion of international investments.
- (b) Non-coverage of intellectual property rights and trade in services by GATT
- (c) Ambiguities in the multilateral System
- (d) All of the above

**70. Choose the correct statement.**

- (a) The GATT was meant to prevent exploitation of poor countries by richer countries.

(b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.

- (c) All members of the World Trade Organization are required to avoid tariffs of all types.
- (d) All of the above

### **The Uruguay Round and the Establishment of WTO**

**71. Which of the following culminated in the establishment of the World Trade Organization?**

- (a) The Doha Round
- (b) The Tokyo Round
- (c) The Uruguay Round
- (d) The Kennedy Round

**72. The World Trade Organization (WTO).**

- (a) has now been replaced by the GATT
- (b) has an inbuilt mechanism to settle disputes among members.
- (c) was established to ensure free and fair trade internationally.
- (d) (b) and (c) above

**73. Which of the following is NOT a part of key objectives of the WHO?**

- (a) To restrict international trade
- (b) To provide a forum for negotiating and monitoring further trade liberalization.
- (c) To resolve trade disputes
- (d) To increase the transparency of decision-making processes.

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74. World Trade Organisation (WTO) was set up on \_\_\_\_\_, replacing the General Agreement on Tariffs and Trade.

- (a) 1st January, 1990
- (b) 1st January, 1993
- (c) 1st January, 1995
- (d) None of these

75. The headquarters of WTO is in \_\_\_\_\_.

- (a) USA
- (b) Switzerland
- (c) Australia
- (d) Germany

76. India is a \_\_\_\_\_ of World Trade Organisation.

- (a) Temporary members
- (b) Standing members
- (c) Funding members
- (d) Not a member

77. Which of the following is covered under protection of intellectual properties (TRIPS)?

- (a) Copyrights, Trade Marks and Patents.
- (b) Geographical indications, industrial designs and patents.
- (c) Layout designs of integrated circuits and undisclosed information (*i.e.* trade secrets).
- (d) All of the above.

78. The WTO accounts for about \_\_\_\_\_ of world trade.

- (a) 50%
- (b) 70%
- (c) 85%
- (d) 95%

79. The WTO's top-level decision-making body is the \_\_\_\_\_ which can take decisions on all matters under any of the multilateral trade agreements.

- (a) Ministerial conference
- (b) General council
- (c) Goods council
- (d) Services council and intellectual property council

80. The Ministerial conference, top decision making body of WTO, meets at least \_\_\_\_\_ to take decisions.

- (a) Once every year
- (b) Twice every year
- (c) Once every two years
- (d) No such fixed frequency

81. Which of the following is/are responsible for overseeing the implementation of the WTO agreements?

- (a) Ministerial Conference
- (b) General Council
- (c) Goods Council, Services Council and Intellectual Property Council
- (d) All of the above

82. Which of the following meets several times a year at the Geneva headquarters?

- (a) Ministerial Conference
- (b) General Council
- (c) Goods Council
- (d) Services Council

83. The Goods Council, Services Council and Intellectual Property Council report to which of the following?

- (a) Ministerial Conference
- (b) General Council

(c) Director General of WTO

(d) Both (a) and (b)

**84. Which one of the following is NOT the guiding principles of WTO agreements?**

(a) Non-Discrimination

(b) Fair Competition

(c) Restricted Trade

(d) Predictability

**85. The essence of 'MFN principle' is**

(a) equality of treatment of all member countries of WTO in respect of matters related to trade

(b) favour one, country, you need to favour all in the same manner

(c) every WTO member will treat all its trading partners equally without any prejudice and discrimination

(d) all the above

**86. The 'National treatment' principle stands for**

(a) the procedures within the WTO for resolving disagreements about trade policy among countries

(b) the principle that imported products are to be treated no worse in the domestic market than the local ones.

(c) exported products are to be treated no worse in the domestic market than the local ones

(d) imported products should have the same tariff, no matter where they are imported from

**87. 'Bound tariff' refers to:**

(a) clubbing of tariffs of different commodities into one common measure.

(b) the lower limit of the tariff below which a nation cannot be taxing its imports

(c) the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.

(d) the limit within which the country's export duty should fall so that there are cheaper exports

**88. Which of the following is True for "Free-Trade" principle of WTO?**

(a) Member countries to reduce tariff and non-tariff barriers to encourage free-trade.

(b) Quantitative restrictions are prohibited.

(c) Developing and other countries facing difficulties in their balance of payments are allowed to reduce trade barriers gradually.

(d) All of the above

**89. The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments**

(a) on increasing agricultural productivity and rural development.

(b) market access and agricultural credit support.

(c) market access, domestic support and export subsidies.

(d) market access, import subsidies and export subsidies.

**90. The Agreement on Textiles and Clothing**

(a) provides that textile trade should be deregulated gradually and the tariffs should be increased

- (b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974
- (c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
- (d) stipulated that tariffs in all countries should be the same

**91. The Agreement on Trade-Related Aspects of Intellectual Property Rights**

- (a) stipulates to administer a system of enforcement of intellectual property rights
- (b) provides for most-favoured-nation treatment and national treatment for intellectual properties
- (c) mandates to maintain high levels of intellectual property protection by all members
- (d) All of the above

**92. Which of the following agreements aims to prevent Standards and Conformity assessment systems from becoming unnecessary trade barriers by securing their transparency and harmonization with international Standards?**

- (a) Agreement on Agriculture
- (b) Agreement on SPS
- (c) Agreement on Technical Barriers & Trade (TBT)
- (d) Agreement on Trade Related Investment Measures.

**93. \_\_\_\_\_ relates to simplifications of administrative procedures and to ensure their fair operation so that import licensing procedures of different countries may not act as trade-barriers.**

- (a) Agreements on Rules of Origin
- (b) Agreement on Import Licensing Procedures
- (c) Agreement on safeguards
- (d) Agreement on Trade-in-Services

**94. TPRM Stands for \_\_\_\_\_**

- (a) Trade Policy Review Mechanism
- (b) Trade Practices Regulatory Measures
- (c) Transparent Practices Regulatory Mechanism
- (d) None of these

**95. TRIM stands for \_\_\_\_\_**

- (a) Trade Policy International Mechanism
- (b) Trade Related Investment Measures
- (c) Transparent Reforms Inherent Mechanism
- (d) None of these

**The Doha Round**

**96. The most controversial topic in the yet to conclude Doha Agenda is**

- (a) trade in manufactured goods.
- (b) trade in intellectual property rights-based goods.
- (c) trade in agricultural goods.
- (d) market access to goods from developed countries.

**97. The WTO commitments.**

- (a) affect developed countries adversely because they have comparatively less agricultural goods.
- (b) affect developing countries more because they need to make radical adjustments.

- (c) affect both developed and developing countries equally.  
 (d) affect none as they increase world trade and ensure prosperity to all.
98. The most controversial topic in the Doha Agenda was \_\_\_\_\_  
 (a) Services trade  
 (b) Market access  
 (c) Agriculture trade  
 (d) Geographical problems
- 9.10 G20 Economies : Facilitating Trade**
99. Which of the following is NOT a member of G20?  
 (a) Italy  
 (b) Japan  
 (c) Australia  
 (d) Pakistan
100. When was G20 established?  
 (a) 1985  
 (b) 1995  
 (c) 1999  
 (d) 2000
101. Which of the following has organised the recent G20 summit in 2023?  
 (a) Osaka  
 (b) India  
 (c) America  
 (d) China
102. What was the theme of the G20 summit held in September 2023?  
 (a) One-Earth – one family  
 (b) One-Earth – one future  
 (c) One Family- one future  
 (d) One Earth – one family – one future
103. Which of the following is NOT the member of G20?  
 (a) Mexico  
 (b) India  
 (c) Singapore  
 (d) Indonesia
104. Where was the first summit of G20 held?  
 (a) USA  
 (b) Britain  
 (c) France  
 (d) Canada
105. Which country will hold the G20 Presidency in 2024?  
 (a) Brazil  
 (b) South Africa  
 (c) USA  
 (d) India

#### UNIT 4 : EXCHANGE RATE AND ITS ECONOMIC EFFECTS

##### The Exchange Rate Regimes

106. A Foreign Currency transaction is a transaction that is \_\_\_\_\_ a Foreign currency.  
 (a) Dominated in  
 (b) Requires settlement in  
 (c) Dominated in or requires settlement in  
 (d) Convertible into
107. Which of the following is NOT a part of Foreign currency Transaction?

- (a) Buys or sells goods or services whose price is denominated in domestic currency
- (b) Borrows or lends funds, denominated in Foreign currency
- (c) becomes a party to an unperformed forward exchange contract
- (d) Acquires or disposes of assets, denominated in Foreign currency.

108. Choose the correct statement.

- (a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency.
- (b) The fixed exchange rate regime is said to be efficient and highly transparent.
- (c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency.
- (d) Exchange rates are generally fixed by the central bank of the country.

109. \_\_\_\_\_ refers to a system in which exchange rate for a currency is fixed by the Government.

- (a) Fixed Exchange Rate System
- (b) Pegged Exchange Rate System
- (c) Floating Exchange Rate System
- (d) Both (a) and (b)

110. When value of domestic currency is tied to the value of another currency, it is known as:

- (a) Pegging
- (b) Parity value
- (c) Floating value
- (d) None of the above

111. When value of a currency is fixed in terms of some other currency or in terms of gold, it is known as \_\_\_\_\_

- (a) Pegging
- (b) Parity value
- (c) Floating value
- (d) None of the above

112. Which of the following is NOT the merit of fixed Exchange Rate System?

- (a) Stability in the Exchange Rate
- (b) Prevent speculative activities
- (c) Huge Foreign Exchange Reserve required
- (d) Promotes International Investment

113. Which of the following is NOT the feature of fixed Exchange Rate System?

- (a) Exchange Rate is officially fixed in terms of gold or any other currency by Government.
- (b) There is complete Government Control as only government has the power to change it.
- (c) The exchange rate keeps on changing frequently.
- (d) Government is required to keep a large stock of Foreign exchange reserves.

114. Which of following is NOT true about the outcome of fixed exchange rate system?

- (a) Brings more currency stability
- (b) Brings more Monetary stability

- (c) Brings Credibility
- (d) Brings more flexibility

115. \_\_\_\_\_ refers to reduction in price of domestic currency in terms of all Foreign currencies under fixed exchange rate regime.

- (a) Depreciation
- (b) Devaluation
- (c) Revaluation
- (d) None of the above

116. \_\_\_\_\_ refers to fall in market price of domestic currency in terms of a Foreign currency under flexible exchange rate regime.

- (a) Depreciation
- (b) Devaluation
- (c) Revaluation
- (d) None of the above

117. Which term is used to a system in which exchange rate is determined by forces of demand and supply of different currencies in the Foreign exchange market?

- (a) Fixed Exchange Rate System
- (b) Floating Exchange Rate System
- (c) Managed floating Rate System
- (d) Pegged Exchange Rate System

118. Which of the following is a merit of flexible Exchange Rate System?

- (a) Maintains Equilibrium level
- (b) No need for huge Foreign Exchange reserves
- (c) Optimum Utilisation of resources
- (d) All of the above

119. Which of the following is NOT the feature of Flexible Exchange Rate System?

- (a) Exchange rate is fixed officially by the Government.
- (b) The exchange rate keeps on changing.
- (c) Foreign Exchange Reserves are not required to be kept.
- (d) Flexible exchange rate may lead to depreciation or appreciation.

120. What is the name of the system in which Foreign exchange rate is determined by market forces and central bank influences the exchange rate through intervention in the Foreign exchange market?

- (a) Fixed Exchange Rate System
- (b) Floating Exchange Rate System
- (c) Managed Floating Rate System
- (d) Managed Fixed Rate System

121. Which of the following statement is true?

- (a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency.
- (b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency
- (c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.
- (d) All of the above

122. Match the following by choosing the term which has the same meaning



- (i) floating exchange rate
- (ii) pegged exchange rate
- (iii) devaluation
- (iv) appreciation
- (a) fixed exchange rate
- (b) depreciation
- (c) revaluation
- (d) flexible exchange rate
- (a) (i c); (ii d); (iii b); (iv a)
- (b) (i b); (ii a); (iii d); (iv c)
- (c) (i a); (ii d); (iii b); (iv c)
- (d) (i d); (ii a); (iii b); (iv c)

### Nominal Versus Real Exchange Rates

123. 'The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statement is:

- (a) wholly correct
- (b) partially correct
- (c) wholly incorrect
- (d) None of the above

124. The Real Exchange Rate (RER) between two countries is the \_\_\_\_\_ of the nominal exchange rate and the ratio of the \_\_\_\_\_ between the two countries.

- (a) addition, Domestic & foreign price
- (b) product, Domestic & Foreign price
- (c) addition, Foreign & Domestic price

- (d) Product, Foreign & Domestic price

125. On which of the following factors, the real exchange rate depends?

- (a) Nominal Exchange Rate
- (b) Domestic Price
- (c) Foreign Price
- (d) All of the above

126. When studying the economy as a whole, which ratio is used in the determination of Real Exchange Rate?

- (a)  $\frac{\text{Domestic Price}}{\text{Foreign Price}}$
- (b)  $\frac{\text{Foreign Price}}{\text{Domestic Price}}$
- (c)  $\frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$
- (d)  $\frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$

127. An increase in Real Effective Exchange Rate (REER) implies that \_\_\_\_\_

- (a) Exports become more expensive
- (b) Imports become cheaper
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

128. An increase in Real Effective Exchange Rate (REER) indicates \_\_\_\_\_ in trade competitiveness.

- (a) a loss
- (b) a gain
- (c) No change
- (d) Substantial gain

129. The price indices are used, when studying the economy as a whole, for determination of Real Exchange

**Rate. Which of the following formulas is used for this?**

- (a) Nominal Exchange Rate  $\times \frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$
- (b) Real Exchange Rate  $\times \frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$
- (c) Nominal Exchange Rate  $\times \frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$
- (d) Real Exchange Rate  $\times \frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$

### The Foreign Exchange Market

130. \_\_\_\_\_ refers to the market in which sale and purchase of Foreign currency is settled on a specified future date at a rate agreed upon today.

- (a) Spot Market  
(b) Forward Market  
(c) Direct Market  
(d) Indirect Market

131. \_\_\_\_\_ refers to the market in which the receipts and payments are made immediately.

- (a) Spot Market  
(b) Forward Market  
(c) Future Market  
(d) Spontaneous Market

132. 'Vehicle Currency' refers to

- (a) a currency that is widely used to denominate international con-

tracts made by parties because it is the national currency of either of the parties.

- (b) a currency that is traded internationally and, therefore, is in high demand.  
(c) a type of currency used in euro area for synchronization of exchange rates  
(d) a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties.

133. In case of spot trading, the settlement is done by and large in \_\_\_\_\_ days.

- (a) Same  
(b) One  
(c) Two  
(d) Three

134. The forward exchange rate is always \_\_\_\_\_ the spot exchange rate.

- (a) Equal to  
(b) more than  
(c) less than  
(d) Any of the above

135. If the forward exchange rate is quoted at more than a spot exchange rate, then there is a \_\_\_\_\_

- (a) forward premium  
(b) forward discount  
(c) Spot Premium  
(d) Spot discount

136. In the case of forward discount, the forward exchange rate is \_\_\_\_\_ the spot exchange rate.

- (a) more than
- (b) less than
- (c) equal to
- (d) Either (a) or (b)

137. In practice, most transactions involve exchanges of foreign currencies for the U.S. dollars even when it is not the national currency of either the importer or the exporter. On account of the critical role in the forex market, the dollar is called as \_\_\_\_\_

- (a) Dominating Currency
- (b) Strong Currency
- (c) Communicable Currency
- (d) Vehicle Currency

### Determination of Nominal Exchange Rate

138. For variety of reasons, \_\_\_\_\_ participate in the Foreign exchange market.

- (a) Individuals
- (b) Institutions
- (c) Governments
- (d) All of the above

139. On the demand side, the participants operate for \_\_\_\_\_

- (a) Purchase of goods and services from another country.
- (b) To make investment income payment abroad.
- (c) To purchase financial assets abroad.
- (d) Any of the above

140. Which one of following is Unilateral transfer?

- (a) Gifts and awards
- (b) Grants and donations
- (c) Endowments
- (d) All of the above

141. The Foreign exchange market faces \_\_\_\_\_ sloping demand curve and an \_\_\_\_\_ sloping supply curve.

- (a) Downward, upward
- (b) Upward, downward
- (c) Downward, downward
- (d) Upward, upward

142. In the determination of Nominal exchange rate, \_\_\_\_\_ and \_\_\_\_\_ are represented on the x-axis and y-axis, respectively.

- (a) quantity of currency, exchange Rate
- (b) exchange Rate, quantity of Currency
- (c) demand of currency, supply of currency
- (d) supply of currency, demand of currency

### 9.15 Changes in Exchange Rates

143. The changes in exchange rates portray \_\_\_\_\_ of one currency.

- (a) depreciation
- (b) appreciation
- (c) either (a) or (b)
- (d) none of these

144. The exchange rate \$1 = ₹78 becomes \$1 = ₹81. What does this indicate?

- (a) Value of Indian Rupee has gone down.

- (b) Indian Rupee has depreciated in its value.
- (c) Value of US dollar has decreased
- (d) Both (a) and (b)

**145. After few months, one had to exchange a greater amount of domestic currency to get same one unit of Foreign currency. In this case \_\_\_\_\_:**

- (a) Domestic currency is devalued.
- (b) Domestic currency is depreciated.
- (c) Foreign currency is devalued.
- (d) Foreign currency is depreciated

**146. When one currency depreciates against another, the second currency must \_\_\_\_\_ against the first.**

- (a) also depreciate
- (b) appreciate after some time
- (c) simultaneously depreciate
- (d) simultaneously appreciate.

**147. Home-currency depreciation means \_\_\_\_\_**

- (a) Home currency becomes relatively less valuable
- (b) There is increase in the home Currency price of the Foreign currency.
- (c) Foreign currency appreciation
- (d) All of the above

**148. All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?**

- (a) The demand curve for dollars shifts to the right and Indian Rupee appreciates.

(b) The supply of US dollars shrinks and, therefore, import prices decrease.

(c) The demand curve for dollars shifts to the right and Indian Rupee depreciates.

(d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate.

**149. Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?**

(a) The US decides not to import from Country X

(b) An increase in remittances from the employees who are employed abroad to their families in the home country.

(c) Increased imports by consumers of Country X.

(d) Repayment of foreign debts by Country X.

**150. An increase in the supply of foreign exchange.**

(a) shifts the supply curve to the right and as a consequence, the exchange rate declines.

(b) shifts the supply curve to the right and as a consequence, the exchange rate increases.

(c) more units of domestic currency are required to buy a unit of foreign exchange.

(d) the domestic currency depreciates and the foreign currency appreciates.

**151. Under a floating rate system, if the demand for Foreign currency**

increases and supply curve remains unchanged, then the exchange value of \_\_\_\_\_ rises and the \_\_\_\_\_ depreciates in value.

- (a) domestic currency, foreign Currency
- (b) Foreign currency, domestic currency
- (c) domestic currency, outside currency
- (d) None of these

152. Which of the following is INCORRECT?

- (a) An increase in the supply of Foreign exchange shifts the supply curve to the right.
- (b) An increase in demand of Foreign currency shift the demand curve to the right.
- (c) An increase in demand with no change in supply will bring an increase in the equilibrium exchange rate.
- (d) None of the above

### Devaluation and Appreciation

153. Currency devaluation.

- (a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries.
- (b) may reduce export prices and increase the international competitiveness of domestic industries
- (c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services
- (d) (a) and (c) above

154. \_\_\_\_\_ is a deliberate downward adjustment in the value of a country's currency relative to another country's currency or group of currencies or standard.

- (a) Devaluation
- (b) Devolvement
- (c) Degradation
- (d) None of these

155. Devaluation is a \_\_\_\_\_ policy tool used by the countries that have a \_\_\_\_\_ exchange rate.

- (a) Monetary, floating
- (b) Monetary, fixed
- (c) Fiscal, Floating
- (d) Fiscal, fixed

156. Revaluation is \_\_\_\_\_ to/of devaluation.

- (a) opposite
- (b) synonymous
- (c) similar
- (d) better

157. Which one of following is incorrect?

- (a) Revaluation refers to a discrete official increase of the otherwise fixed par value of a nation's currency.
- (b) Devaluation is a monetary policy tool.
- (c) Depreciation is a decrease in a currency's value due to market forces of demand and supply under a floating exchange rate.
- (d) None of the above

### 9.17 Impacts of Exchange Rate Fluctuations on Domestic Economy

158. At any point of time, all markets tend to have the same exchange rate for a given currency due to

- (a) Hedging
- (b) Speculation
- (c) Arbitrage
- (d) Currency futures

159. All other things remaining the same, an appreciation of a country's currency \_\_\_\_\_.

- (a) raises the relative price of its exports
- (b) lowers the relative price of its imports
- (c) raises the price of imports & lowers the price of export
- (d) Both (a) and (b)

160. For which type of economy, a depreciated currency would mean a lot of gain?

- (a) Where imports are high
- (b) Where exports are high
- (c) Where imports are significantly high
- (d) Where export are significantly high

161. If currency depreciates in an economy, where the exports are significantly high and the exports originate from labour - intensive industries, then what will happen?

- (a) Increase in Export Prices
- (b) Increase in employment
- (c) Increase in wages
- (d) All of the above

162. Which of the following is NOT a consequences of appreciation, on real economy?

- (a) Rise in price of exports
- (b) Reduction in levels of inflation
- (c) Insignificant loss of competitiveness
- (d) Positive effect on domestic industry.

## UNIT 5 : INTERNATIONAL CAPITAL MOVEMENTS

### Types of Foreign Capital

163. Which of the following is a component of foreign capital?

- (a) Direct inter government loans
- (b) Loans from international institutions (e.g. World Bank, IMF, ADB)
- (c) Soft loans for e.g. from affiliates of World Bank such as IDA
- (d) All of the above

164. Which of the following is a form of Borrowings?

- (a) Direct Inter government loans.
- (b) Loans from international institutions (e.g. World Bank, IMF, ADB).
- (c) External Commercial Borrowings.
- (d) All of the above.

165. Which of the following is NOT a Component of Foreign Capital Flows?

- (a) Foreign aid or assistance
- (b) Borrowings/loans from international institutions.
- (c) FDI in industrial, commercial and similar other enterprises.
- (d) Deposits of Resident Indians.

### Foreign Direct Investment (FDI)

166. Which of the following statements is incorrect?

- (a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
- (b) Foreign portfolio investments involve flow of 'financial capital'.
- (c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.
- (d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.

167. Which of the following would be an example of foreign direct investment from Country X?

- (a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
- (b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors.

(c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm.

(d) None of the above

168. Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?

- (a) Brown field investment
- (b) Merger and acquisition
- (c) Greenfield investment
- (d) Strategic alliances

169. A foreign direct investor

- (a) May enter India only through automatic route
- (b) May enter India only through government route
- (c) May enter India only through equity in domestic enterprises
- (d) Any of the above

170. Based on the nature of Foreign investments, FDI may be categorized as:

- (a) Horizontal
- (b) Vertical
- (c) Conglomerate
- (d) All of the above

171. United Inc. is a cell phone service provider based in the United States. The corporation is moving to India to provide the same service. Which type of investment is said to have taken place?

- (a) Horizontal
- (b) Vertical
- (c) Conglomerate
- (d) Same-axis

172. \_\_\_\_\_ is a type of Foreign direct investment is one where an investor makes a foreign investment in a business that is unrelated to its existing business in its home country.

- (a) Horizontal
- (b) Vertical
- (c) Conglomerate
- (d) None of the above

### Foreign Portfolio Investment (FPI)

173. Which of the following statement is false in respect of FPI?

- (a) Portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments.
- (b) Is effected largely by individuals and institutions through the mechanism of capital market.
- (c) Is difficult to recover as it involves purely long-term investments and the investors have controlling interest.
- (d) Investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.

174. The Foreign Portfolio Investment (FPI) is NOT concerned with \_\_\_\_\_

- (a) manufacture of goods
- (b) provision of services
- (c) the intention of exercising voting power
- (d) all of the above

### FDI: Reasons, Modes & Benefits

175. Which of the following is a reason for foreign direct investment?

- (a) Secure access to minerals or raw materials
- (b) Desire to capture of large and rapidly growing emerging markets
- (c) Desire to influence home country industries
- (d) (a) and (b) above

176. An argument in favour of direct foreign investment is that it tends to.

- (a) promote rural development
- (b) increase access to modern technology
- (c) protect domestic industries
- (d) keep inflation under control

### Answer

1.	(d)	2.	(b)	3.	(c)	4.	(c)	5.	(a)	6.	(a)	7.	(c)
8.	(a)	9.	(b)	10.	(d)	11.	(b)	12.	(b)	13.	(b)	14.	(d)
15.	(b)	16.	(d)	17.	(c)	18.	(d)	19.	(b)	20.	(d)	21.	(b)
22.	(b)	23.	(d)	24.	(a)	25.	(d)	26.	(c)	27.	(c)	28.	(a)
29.	(c)	30.	(d)	31.	(b)	32.	(b)	33.	(c)	34.	(d)	35.	(a)
36.	(a)	37.	(b)	38.	(b)	39.	(d)	40.	(b)	41.	(d)	42.	(d)
43.	(c)	44.	(b)	45.	(d)	46.	(d)	47.	(c)	48.	(b)	49.	(d)



50.	(c)	51.	(a)	52.	(d)	53.	(c)	54.	(b)	55.	(b)	56.	(a)
57.	(d)	58.	(c)	59.	(d)	60.	(c)	61.	(a)	62.	(a)	63.	(c)
64.	(d)	65.	(b)	66.	(d)	67.	(b)	68.	(b)	69.	(d)	70.	(b)
71.	(c)	72.	(d)	73.	(a)	74.	(c)	75.	(b)	76.	(c)	77.	(d)
78.	(d)	79.	(a)	80.	(c)	81.	(c)	82.	(b)	83.	(b)	84.	(c)
85.	(d)	86.	(b)	87.	(c)	88.	(d)	89.	(c)	90.	(b)	91.	(d)
92.	(c)	93.	(b)	94.	(a)	95.	(b)	96.	(c)	97.	(b)	98.	(c)
99.	(d)	100.	(c)	101.	(b)	102.	(d)	103.	(c)	104.	(a)	105.	(a)
106.	(c)	107.	(a)	108.	(c)	109.	(d)	110.	(a)	111.	(b)	112.	(c)
113.	(c)	114.	(d)	115.	(b)	116.	(a)	117.	(b)	118.	(d)	119.	(a)
120.	(c)	121.	(d)	122.	(d)	123.	(a)	124.	(b)	125.	(d)	126.	(c)
127.	(c)	128.	(a)	129.	(a)	130.	(b)	131.	(a)	132.	(d)	133.	(c)
134.	(d)	135.	(a)	136.	(b)	137.	(d)	138.	(d)	139.	(d)	140.	(d)
141.	(a)	142.	(a)	143.	(c)	144.	(d)	145.	(b)	146.	(d)	147.	(d)
148.	(c)	149.	(b)	150.	(a)	151.	(b)	152.	(d)	153.	(b)	154.	(a)
155.	(b)	156.	(a)	157.	(d)	158.	(c)	159.	(d)	160.	(d)	161.	(d)
162.	(d)	163.	(d)	164.	(d)	165.	(d)	166.	(c)	167.	(c)	168.	(c)
169.	(d)	170.	(d)	171.	(a)	172.	(c)	173.	(c)	174.	(d)	175.	(d)
176.	(b)												

### Hints of selected questions

19. The option (b) is incorrect. The correct 4th attribute is demand conditions.
30. Compound Duty is a tariff that combines both per unit and percentage of value.
34. It is technical tariff since it has been calculated on the basis of the specific contents of the imported goods *i.e.* The duties are payable by its components or related items.
36. These are Most-Favoured Nation (MFN) tariffs.
53. Organic Certification is an example of Technical Barriers to Trade (TBT)
100. G20 was established in 1999 to bring together finance ministers and Central Bank Governors of developed and developing countries.
104. The first summit of the G20 was held in Washington (USA) in 2008.
109. Fixed Exchange Rate System is also known as Pegged Exchange Rate System.
112. The option (c) is a demerit because Government has to maintain large reserves of Foreign currencies to maintain the exchange rate at the level fixed by it.
113. The option (c) is NOT the feature of fixed exchange rate system. Rather, the exchange rate generally remains stable and only a small variations is possible.

**114.** The option (*d*) is incorrect. Because the fixed exchange rate system lacks flexibility.

**119.** Under flexible Exchange rate System, the exchange rate is determined by the forces of demand and supply of Foreign exchange. Therefore, option (*a*) is NOT the feature of flexible Exchange Rate System.

**124.**  $RER = \text{Nominal Exchange Rate} \times \frac{\text{Domestic Price}}{\text{Foreign Price}}$

**162** With increasing export prices, the competitiveness of domestic industry is adversely affected. Thus, option (*d*) is not a consequence of appreciation.