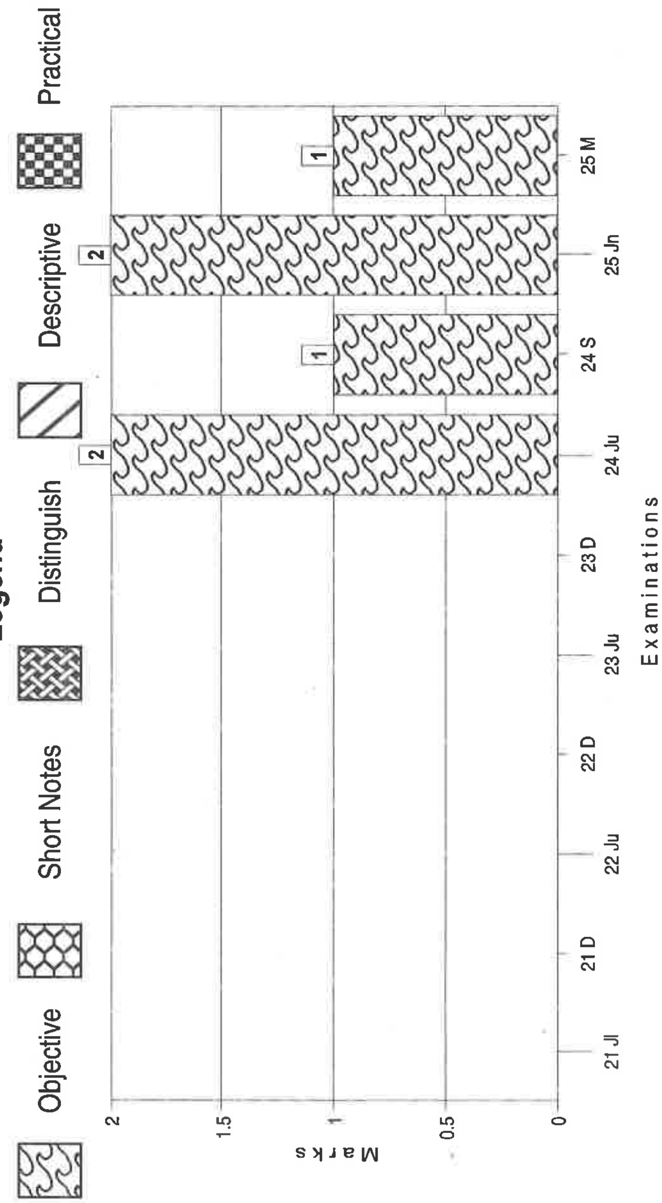
THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



CHAPTER	INTERNATIONAL TRADE
9.1	Theories of International Trade

1. Important Theories of International Trade					
Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Jun	1	2024-Jun	2	2024-Sep	1
2025-Jan	1	2025-Jan	2	2025-May	1

MODEL QUESTIONS

1.1 Introduction

1. Which theory suggests that a country should specialize in producing goods in which it has an absolute advantage?
   (a) Comparative Advantage Theory
   (b) Mercantilism Theory
   (c) Absolute Advantage Theory
   (d) Factor Proportions Theory
2. According to the Comparative Advantage Theory, trade between two countries can be beneficial if:
   (a) Both countries have the same resources and technology.
   (b) Both countries have a balanced trade.
   (c) One country has an absolute advantage in all goods.
   (d) Each country specializes in producing goods in which it has a lower opportunity cost.
3. The theory that emphasizes the role of factor endowments as the basis for trade is known as:
   (a) Absolute Advantage Theory
   (b) Heckscher-Ohlin Theory
   (c) New Trade Theory
   (d) Porter's Diamond Model

4. Which theory of international trade explains trade patterns based on economies of scale and product differentiation?
   (a) Comparative Advantage Theory
   (b) Mercantilism Theory
   (c) New Trade Theory
   (d) Absolute Advantage Theory
5. The theory that states a country should protect its domestic industries in order to build national wealth and power is called:
   (a) Absolute Advantage Theory
   (b) Mercantilism Theory
   (c) Comparative Advantage Theory
   (d) Factor Proportions Theory
6. Which theory suggests that a country should specialize in producing goods and services in which it has an absolute advantage?
   (a) Mercantilism
   (b) Comparative advantage
   (c) Absolute advantage
   (d) Factor proportion theory
7. The theory of comparative advantage was developed by:
   (a) David Ricardo (b) Adam Smith
   (c) John Maynard Keynes (d) Karl Marx
8. According to the theory of comparative advantage, a country should specialize in producing goods and services in which it has a comparative advantage, which means:
   (a) It can produce more units of the good with the same amount of resources compared to another country
   (b) It can produce the good using fewer resources compared to another country
   (c) It has a higher income level than another country
   (d) It has a larger population than another country
9. The Heckscher-Ohlin theory suggests that international trade occurs due to differences in:
   (a) Government policies and regulations
   (b) Technological advancements
   (c) Factor endowments (such as labor and capital)
   (d) Exchange rates

10. According to the new trade theory, what is the role of economies of scale in international trade?
   (a) Economies of scale have no impact on international trade.
   (b) Countries with large economies of scale have a comparative advantage in all industries.
   (c) Economies of scale allow firms to reduce production costs and gain a competitive advantage in international markets.
   (d) Small economies are at a disadvantage in international trade due to the lack of economies of scale.

1.2 Important Theories of International Trade

1. The theory that suggests that a country should specialize in producing and exporting goods in which it has a comparative advantage, and import goods in which it has a comparative disadvantage, is known as:
   (a) The Mercantilist Theory
   (b) The Theory of Absolute Advantage
   (c) The Theory of Comparative Advantage
   (d) The Heckscher-Ohlin Theory
2. According to the Theory of Absolute Advantage, trade between two countries can be mutually beneficial if:
   (a) Both countries have the same level of productivity.
   (b) One country can produce all goods at a lower cost than the other.
   (c) Both countries have the same resources and technology.
   (d) Both countries impose high tariffs on imports.
3. The Heckscher-Ohlin Theory of International Trade emphasizes that trade is influenced by differences in:
   (a) Absolute advantage between countries.
   (b) Comparative advantage between countries.
   (c) Factor endowments between countries.
   (d) Monetary policies between countries.
4. The Mercantilist Theory of International Trade advocates that a country should:
   (a) Encourage imports to promote domestic industries.
   (b) Export more than it imports to accumulate wealth in the form of precious metals.

(c) Adopt a policy of free trade to promote global cooperation.
(d) Reduce tariffs and barriers to trade.

5. According to the Product Life Cycle Theory of International Trade, in which stage of a product's life cycle is a country likely to export it?
(a) Introduction stage
(b) Growth stage
(c) Maturity stage
(d) Decline stage

6. The theory that suggests countries should specialize in producing goods and services in which they have a comparative advantage is known as:
(a) Absolute advantage theory
(b) Mercantilism
(c) Comparative advantage theory
(d) Factor proportion theory

7. The principle of comparative advantage was first proposed by:
(a) Adam Smith
(b) David Ricardo
(c) John Maynard Keynes
(d) Karl Marx

8. According to the theory of absolute advantage, a country should specialize in producing goods in which it can:
(a) Produce the most units of a good with the same amount of resources
(b) Produce the highest-quality goods
(c) Produce goods that are in high demand internationally
(d) Produce goods that have the highest market value

9. The Heckscher-Ohlin theory suggests that international trade occurs due to differences in:
(a) Technology and innovation
(b) Government policies and regulations
(c) Factor endowments (such as labor and capital)
(d) Cultural preferences for certain products

10. The new trade theory emphasizes the role of __________ in explaining international trade patterns.
(a) Factor endowments (b) Economies of scale
(c) Comparative advantage (d) Tariffs and trade barriers

1.2.1 The Mercantilists' View of International Trade

1. The Mercantilists' view of international trade primarily focused on:
(a) Promoting free trade and unrestricted movement of goods.
(b) Accumulating precious metals and maintaining a favorable balance of trade.
(c) Achieving absolute advantage in the production of all goods.
(d) Reducing tariffs and trade barriers between nations.

2. According to the Mercantilists, the best way for a country to increase its wealth was to:
(a) Encourage imports to meet domestic demand.
(b) Maintain a balanced trade with other nations.
(c) Export more goods than it imported.
(d) Focus on domestic production and self-sufficiency.

3. Mercantilists believed that colonies were essential for a country's economic success because:
(a) Colonies provided cheap labor for domestic industries.
(b) Colonies were a source of raw materials and markets for finished goods.
(c) Colonies ensured a steady supply of precious metals for the mother country.
(d) Colonies contributed to the development of free trade principles.

4. One of the main criticisms of the Mercantilist view of international trade was that it:
(a) Promoted economic cooperation and mutual benefits among nations.
(b) Encouraged countries to focus on producing goods with comparative advantage.
(c) Led to excessive competition and conflicts over trade and resources.
(d) Ignored the importance of accumulating precious metals in trade.

5. Mercantilism was the dominant economic philosophy during which historical period?
(a) The 18^{th} century
(b) The 19^{th} century
(c) The 17^{th} century
(d) 16 to 18 century

6. The Mercantilists believed that the wealth and power of a nation were primarily determined by:
   (a) The level of technology and innovation
   (b) The size of its population
   (c) The amount of gold and silver it possessed
   (d) The extent of its agricultural resources
7. According to Mercantilists, a favorable balance of trade can be achieved by:
   (a) Exporting more goods than importing
   (b) Importing more goods than exporting
   (c) Maintaining an equal value of exports and imports
   (d) Eliminating trade with other nations
8. Mercantilists believed that a country should:
   (a) Encourage free trade with other nations
   (b) Focus on producing goods with the highest domestic demand
   (c) Accumulate as much gold and silver as possible through trade
   (d) Import more than it exports to stimulate economic growth
9. Which of the following was a policy measure commonly advocated by Mercantilists to promote exports and discourage imports?
   (a) Imposing tariffs and import restrictions
   (b) Eliminating all taxes and tariffs on trade
   (c) Encouraging foreign investment in domestic industries
   (d) Signing free trade agreements with other nations
10. The Mercantilists' view of international trade dominated economic thinking during which historical period?
   (a) The late 20th century
   (b) The Renaissance and the early modern period
   (c) The Industrial Revolution
   (d) The post-World War II era

1.2.2 The Theory of Absolute Advantage

1. The Theory of Absolute Advantage, proposed by Adam Smith, states that a country has an absolute advantage in the production of a good when:
   (a) It can produce that good at a lower opportunity cost compared to other countries.
   (b) It can produce that good using fewer resources compared to other countries.
   (c) It can produce that good using the latest technology and machinery.
   (d) It can produce that good and export it without any restrictions.
2. The Theory of Absolute Advantage suggests that countries should specialize in producing goods in which they have an absolute advantage and then engage in international trade to:
   (a) Reduce competition in the domestic market.
   (b) Protect domestic industries from foreign competition.
   (c) Maximize overall efficiency and welfare.
   (d) Decrease the employment rate in the country.
3. Which of the following is an essential assumption of the Theory of Absolute Advantage?
   (a) Constant opportunity cost of production.
   (b) The availability of perfect competition in the markets.
   (c) Identical resources and technologies across all countries.
   (d) The absence of trade barriers and restrictions.
4. The Theory of Absolute Advantage highlights that international trade can lead to mutual benefits for countries because:
   (a) Each country has a comparative advantage and lower opportunity cost.
   (b) Each country can import goods that it cannot produce efficiently.
   (c) Each country can export goods that it produces at a higher opportunity cost.
   (d) Each country can accumulate vast amounts of wealth through trade.
5. The Theory of Absolute Advantage laid the foundation for understanding the gains from international trade and served as a basis for:
   (a) The development of the Theory of Comparative Advantage.
   (b) The imposition of trade barriers and tariffs.
   (c) The establishment of international trade organizations.
   (d) The promotion of self-sufficiency and autarky.

6. The theory of absolute advantage was first introduced by:
   (a) Adam Smith (b) David Ricardo
   (c) John Maynard Keynes (d) Karl Marx
7. According to the theory of absolute advantage, a country should specialize in producing goods or services in which it can:
   (a) Produce the most units of a good with the same amount of resources
   (b) Produce the highest-quality goods or services
   (c) Produce goods or services that have the highest market demand
   (d) Produce goods or services with the highest profit margins
8. The theory of absolute advantage suggests that international trade is beneficial because it allows countries to:
   (a) Import goods and services they cannot produce domestically
   (b) Eliminate competition in the global market
   (c) Increase government revenue through tariffs and trade barriers
   (d) Reduce their dependence on foreign resources
9. According to Adam Smith's absolute advantage theory, trade between two countries can lead to mutual gains as long as:
   (a) One country has an absolute advantage in all goods and services
   (b) Both countries have an absolute advantage in the same goods and services
   (c) Each country has an absolute advantage in different goods and services
   (d) Both countries have an equal level of economic development
10. The theory of absolute advantage is based on the idea that countries should engage in trade to:
    (a) Maximize government revenue
    (b) Achieve a favorable balance of trade
    (c) Promote self-sufficiency and economic isolation
    (d) Benefit from specialization and exchange of goods and services

1.2.3 The Theory of Comparative Advantage

1. The Theory of Comparative Advantage, developed by David Ricardo, suggests that countries should specialize in producing goods in which they have a comparative advantage. What does "comparative advantage" mean in this context?

   (a) The ability to produce a good at a lower opportunity cost than another country.
   (b) The ability to produce a good using fewer resources than another country.
   (c) The ability to produce a good at the same cost as another country.
   (d) The ability to produce a good more efficiently than another country.
2. According to the Theory of Comparative Advantage, when countries specialize in producing goods based on their comparative advantages and then trade with each other:
   (a) Only one country will benefit, while the other will lose from trade.
   (b) Both countries will benefit from trade due to efficiency gains.
   (c) Both countries will experience a decrease in overall production.
   (d) The terms of trade will always favor one country over the other.
3. The Theory of Comparative Advantage is based on the concept of:
   (a) Economies of scale in production.
   (b) Factor endowments and resource availability.
   (c) Opportunity cost and trade-offs.
   (d) Comparative cost differences between countries.
4. The Theory of Comparative Advantage suggests that even if one country is more efficient in producing all goods compared to another country, both countries can still benefit from trade if they:
   (a) Engage in barter trade instead of monetary transactions.
   (b) Implement strict trade barriers and tariffs.
   (c) Exchange goods based on their relative efficiency.
   (d) Sign free trade agreements with each other.
5. The Theory of Comparative Advantage is associated with the work of which economist?
   (a) Adam Smith
   (b) John Maynard Keynes
   (c) David Ricardo
   (d) Paul Samuelson
6. The theory of comparative advantage was formulated by:
   (a) Adam Smith (b) David Ricardo
   (c) John Maynard Keynes (d) Karl Marx
7. According to the theory of comparative advantage, a country should specialize in producing goods or services in which it has a comparative advantage, which means:

(a) It can produce more units of the good with the same amount of resources compared to another country
(b) It can produce the good using fewer resources compared to another country
(c) It has a higher income level than another country
(d) It has a larger population than another country

8. The theory of comparative advantage suggests that international trade is beneficial because it allows countries to:
(a) Eliminate competition in the global market
(b) Increase government revenue through tariffs and trade barriers
(c) Import goods and services they cannot produce efficiently
(d) Reduce their dependence on foreign resources

9. According to the theory of comparative advantage, trade between two countries can lead to mutual gains as long as:
(a) One country has a comparative advantage in all goods and services
(b) Both countries have a comparative advantage in the same goods and services
(c) Each country has a comparative advantage in different goods and services
(d) Both countries have an equal level of economic development

10. The theory of comparative advantage is based on the idea that countries should engage in trade to:
(a) Maximize government revenue
(b) Achieve a favorable balance of trade
(c) Promote self-sufficiency and economic isolation
(d) Benefit from specialization and exchange of goods and services

1.2.4 The Heckscher-Ohlin Theory of Trade

1. The Heckscher-Ohlin Theory of Trade suggests that a country will export the good that uses its abundant factor of production more intensively because:
(a) The country wants to promote domestic industries.
(b) It wants to reduce its dependence on imports.

(c) The abundant factor of production is relatively cheaper.
(d) The abundant factor of production is scarce.

2. According to the Heckscher-Ohlin Theory, trade occurs between countries that have differences in their:
(a) Absolute advantage in production.
(b) Size of population.
(c) Factor endowments, such as labor and capital.
(d) Industrialization levels.

3. The Heckscher-Ohlin Theory predicts that a country with a relatively large endowment of skilled labor is likely to export:
(a) Capital-intensive goods. (b) Labor-intensive goods.
(c) Natural resources. (d) Services.

4. The Heckscher-Ohlin Theory of Trade assumes that factors of production are:
(a) Mobile and can move freely between countries.
(b) Immobile and cannot move between countries.
(c) Equally distributed among all countries.
(d) Constantly changing due to technological advancements.

5. The Heckscher-Ohlin Theory of Trade is also known as the theory of:
(a) Absolute Advantage
(b) Comparative Advantage
(c) Factor Proportions
(d) International Product Life Cycle

6. The Heckscher-Ohlin theory of trade suggests that international trade occurs due to differences in:
(a) Technology and innovation
(b) Government policies and regulations
(c) Factor endowments (such as labor and capital)
(d) Cultural preferences for certain products

7. According to the Heckscher-Ohlin theory, a country will export goods that use relatively:
(a) Abundant factors of production
(b) Scarce factors of production
(c) Expensive factors of production
(d) Labor-intensive factors of production

8. The Heckscher-Ohlin theory predicts that a labor-abundant country will export goods that are:
   (a) Labor-intensive
   (b) Capital-intensive
   (c) High-tech and innovative
   (d) Raw materials and commodities
9. The Heckscher-Ohlin theory suggests that international trade can lead to:
   (a) Income equality between countries
   (b) Factor price equalization
   (c) A decrease in factor mobility
   (d) Increased trade barriers and protectionism
10. The Heckscher-Ohlin theory assumes that factors of production are:
   (a) Immobile between industries within a country
   (b) Perfectly mobile between industries within a country
   (c) Mobile between countries but immobile within a country
   (d) Immobile between countries and industries

1.2.5 Globalization and New International Trade Theory

1. Globalization is characterized by:
   (a) The increased integration and interdependence of economies and cultures worldwide.
   (b) A focus on promoting self-sufficiency and domestic industries.
   (c) A decrease in international trade and cross-border transactions.
   (d) A shift towards protectionist trade policies.
2. The New International Trade Theory emphasizes the role of:
   (a) Factor endowments and comparative advantage.
   (b) Economies of scale and product differentiation.
   (c) Changes in consumer preferences and tastes.
   (d) Tariffs and trade barriers.
3. Globalization has led to an increase in international trade due to:
   (a) Reduced barriers to trade and investment.
   (b) A decline in the importance of multinational corporations.
   (c) A decrease in cross-border communication and technology.
   (d) An increase in self-sufficiency and closed economies.

4. The New International Trade Theory suggests that in certain industries with significant economies of scale, the world market can support:
   (a) Only a limited number of firms.
   (b) A large number of small firms.
   (c) Only domestic firms and not foreign firms.
   (d) A single monopolistic firm.
5. Globalization has led to increased cross-border movement of:
   (a) Labor and capital.
   (b) Trade barriers and restrictions.
   (c) Domestic industries and subsidies.
   (d) Agricultural products and raw materials.
6. Globalization refers to the:
   (a) Isolation of countries from the global economy
   (b) Integration and interdependence of countries in the global economy
   (c) Adoption of protectionist trade policies
   (d) Establishment of regional trade blocs
7. The new international trade theory emphasizes the role of __________ in explaining trade patterns and advantages:
   (a) Comparative advantage
   (b) Factor endowments
   (c) Economies of scale and product differentiation
   (d) Tariffs and trade barriers
8. According to the new trade theory, firms that produce unique products with advanced technology and innovation can gain a competitive advantage due to:
   (a) Comparative advantage
   (b) Lower production costs
   (c) Economies of scale and first-mover advantage
   (d) Government subsidies
9. The new international trade theory suggests that free trade can lead to:
   (a) Decreased competition and monopolistic behavior
   (b) Inefficiency in resource allocation
   (c) Stagnation of economic growth
   (d) Increased global prosperity through specialization and economies of scale

10. Which of the following is a potential drawback of globalization in terms of income distribution?
    (a) Increased income inequality between countries
    (b) Decreased income inequality within countries
    (c) A shift in manufacturing jobs from developed to developing countries
    (d) The equal distribution of wealth among all countries

Answer

1.1 Introduction

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(d)	(b)	(c)	(b)	(c)	(a)	(b)	(c)	(c)

1.2 Important Theories of International Trade

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(b)	(c)	(b)	(b)	(c)	(b)	(a)	(c)	(b)

1.2.1 The Mercantilists' View of International Trade

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(b)	(c)	(b)	(c)	(d)	(c)	(a)	(c)	(a)	(b)

1.2.2 The Theory of Absolute Advantage

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(c)	(b)	(b)	(a)	(a)	(a)	(a)	(c)	(d)

1.2.3 The Theory of Comparative Advantage

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(b)	(c)	(c)	(c)	(b)	(b)	(c)	(c)	(d)

1.2.4 The Heckscher-Ohlin Theory of Trade

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(c)	(b)	(b)	(c)	(c)	(a)	(a)	(b)	(b)

1.2.5 Globalization and New International Trade Theory

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(b)	(a)	(a)	(a)	(b)	(c)	(c)	(d)	(a)

Past Year Questions and Answers

2024 - June

[1] Theory of comparative cost advantage is _______ in nature and it_______ takes into account of factor price difference.
(a) Positive, does
(b) Normative, does not
(c) Positive, does not
(d) Normative, does (1 mark)

Answer:

(b) Theory of comparative advantage is normative as it proves gains from international trade. It will not consider price differences.

[2] Mercantilism means:
(a) Aggressive exports over imports to accumulate wealth
(b) Comparative advantage
(c) Absolute cost advantage
(d) Factor endowment (1 mark)

Answer:

(a) Mercantilism promotes increase in exports and decrease in imports.

2024 - SEPTEMBER

[1] What does the principle of Absolute Advantage refer to?

(a) The ability to produce a greater quantity of a goods using the same amount of resources as competitors

(b) The ability to produce a greater quantity of a goods using fewer resources

(c) The ability to produce a lesser quantity of a goods using the same amount of resources as competitors

(d) The ability to produce a greater variety of goods than competitors (1 mark)

Answer:

(b) The ability to produce a greater quantity of a goods using fewer resources The principle of Absolute Advantage, introduced by Adam Smith, refers to a country's or entity's ability to produce a good more efficiently (i.e., with fewer resources) than competitors.

2025 - JANUARY

[1] Factor Endowment Theory of trade is also known as ______.

(a) Baumol and Tobin theory

(b) Adam Smith, Absolute Cost Advantage theory

(c) Heckscher–Ohlin theory

(d) Factor Price Equalisation theory (1 mark)

Answer:

(c) Heckscher–Ohlin theory

The **Factor Endowment Theory of trade** is also known as the Heckscher-Ohlin theory. This theory explains that countries export goods that utilize their abundant factors of production and import goods that utilize their scarce factors.

Explanation:

- (A) Baumol and Tobin theory: This refers to the Baumol-Tobin model, which explains the demand for money in the context of transaction costs and the opportunity cost of holding money.
- (B) Adam Smith, Absolute Cost Advantage theory: This theory, proposed by Adam Smith, suggests that a country should specialize in producing goods where it has an absolute advantage in production.
- (C) Heckscher-Ohlin theory: This is correct. The Factor Endowment Theory is also known as the Heckscher-Ohlin theory.
- (D Factor Price Equalisation theory: This theory suggests that free trade will lead to the equalization of factor prices (wages and returns to capital) across countries.

Therefore, the correct answer is: **(C) Heckscher-Ohlin theory.**

[2] The theory of Comparative Advantage in International Trade was presented by:

(a) Adam Smith

(b) David Ricardo

(c) John Maynard Keynes

(d) Milton Friedman (1 mark)

Answer:

(b) David Ricardo

Explanation:

The theory of Comparative Advantage in international trade was presented by David Ricardo. In 1817, Ricardo introduced this concept in his work "On the Principles of Political Economy and Taxation," explaining how countries benefit from specializing in producing goods for which they have a comparative advantage and engaging in trade.

Therefore, the correct answer is: **(B) David Ricardo.**

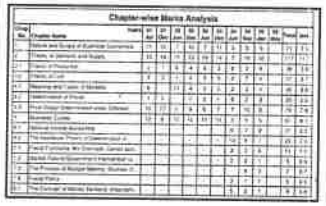
2025 - MAY

[1] In the Theory of Comparative Costs, which of the following statements are true ?

I. It is based on money cost which is more realistic
II. It is Positive in Nature
III. It is Normative in nature
IV. Do not take into account the factor price differences

(a) I and II are correct (b) III and IV are correct
(c) II and IV are correct (d) I and IV are correct (1 mark)

Scanner Preparation Key
Scan & go to "My Books"

Smart Study with Scanner	Chapter wise Marks Analysis
	• At page no. **{ x }** • Total and average marks for each chapter • Helps prioritize chapters based on marks • Enables focused revisions for chapters with varying trends

Core Concepts

- Define international trade and its role in economic development.
- Explain the key theories of international trade:
- Mercantilism: Focus on trade surplus and wealth accumulation.
- Absolute Advantage (Adam Smith): Specialization in goods with lower production costs.
- Comparative Advantage (David Ricardo): Specialization in goods with lower opportunity costs.
- Heckscher-Ohlin Theory: Trade based on factor endowments (labor and capital).
- Discuss the significance of trade theories in understanding global trade patterns.
- Highlight the differences between classical and modern trade theories.

Motivational Thoughts

- "Trade isn't just an exchange of goods; it's an exchange of opportunities and prosperity."
- "Every nation has something to offer; understanding trade theories shows us why."
- "Theories of trade explain why cooperation leads to mutual gains."
- "Specialization and trade are the keys to unlocking global potential."
- "Global trade proves that no economy grows in isolation."

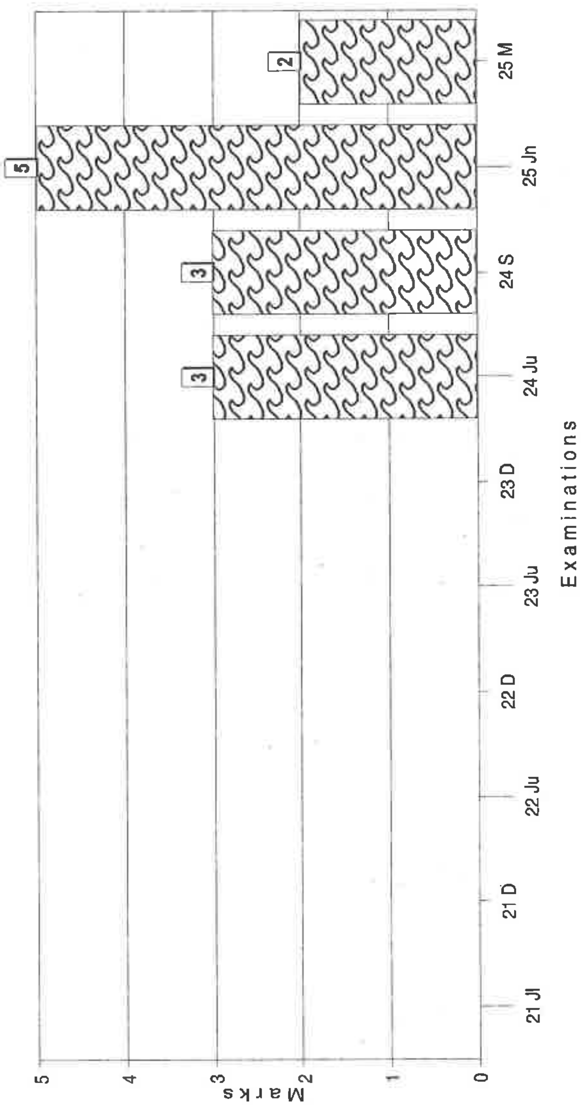
THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective Short Notes Distinguish Descriptive Practical



CHAPTER	INTERNATIONAL TRADE
9.2	**The Instruments of Trade Policy**

1. Tariffs

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Jun	2	2024-Jun	3	2024-Sep	1
2025-Jan	1	2025-Jan	2	2025-Jan	3
2025-Jan	5	2025-May	1	2025-May	2

2. Non-Tariff Measures (NTMs)

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Jun	1	2024-Sep	2	2025-Jan	4

MODEL QUESTIONS

1.1 Introduction

1. Which of the following is an example of a tariff as an instrument of trade policy?
   (a) Government subsidies to promote exports.
   (b) Imposing a limit on the quantity of imports.
   (c) Placing a tax on imported goods.
   (d) Establishing preferential trade agreements with partner countries.
2. The purpose of imposing import quotas as an instrument of trade policy is to:
   (a) Generate revenue for the government.
   (b) Reduce the trade deficit and promote exports.
   (c) Encourage competition among domestic producers.
   (d) Restrict the quantity of imports entering the country.

3. Which of the following is an example of a non-tariff barrier to trade?
   (a) Import quotas.
   (b) Export subsidies.
   (c) Free trade agreements.
   (d) Preferential trade arrangements.
4. An export subsidy is an instrument of trade policy that:
   (a) Reduces the cost of imported goods for consumers.
   (b) Provides financial incentives to domestic producers for exporting.
   (c) Limits the quantity of goods that can be exported.
   (d) Reduces taxes on imported goods to promote exports.
5. Which of the following trade policy instruments is aimed at promoting free trade and reducing barriers to international commerce?
   (a) Export subsidies.
   (b) Import quotas.
   (c) Preferential trade agreements.
   (d) Dumping duties.
6. Trade policy refers to the government's strategies and actions aimed at:
   (a) Promoting domestic production and exports
   (b) Encouraging foreign direct investment
   (c) Reducing unemployment rates
   (d) Regulating the stock market
7. The main objectives of trade policy include:
   (a) Stabilizing foreign exchange rates
   (b) Controlling inflation and interest rates
   (c) Protecting domestic industries and promoting international trade
   (d) Enforcing copyright laws for intellectual property protection
8. Trade policy instruments can be classified into two broad categories:
   (a) Fiscal policy and monetary policy
   (b) Exchange rate policies and fiscal policies
   (c) Trade liberalization and trade protection measures
   (d) Government expenditure and taxation policies
9. Which trade policy approach aims to reduce or eliminate trade barriers and restrictions to promote free and open international trade?

   (a) Trade liberalization
   (b) Import quotas
   (c) Export subsidies
   (d) Dumping
10. The imposition of tariffs, import quotas, and export subsidies are examples of:
   (a) Trade liberalization measures
   (b) Free trade agreements
   (c) Trade protection measures
   (d) Monetary policies

1.2 Tariffs

1. What are tariffs in the context of trade policy?
   (a) Subsidies provided to domestic industries for exports.
   (b) Restrictions on the import of certain goods to protect domestic industries.
   (c) Trade agreements between countries to promote free trade.
   (d) Financial incentives offered to foreign companies to invest in the domestic market.
2. The main objective of implementing tariffs is to:
   (a) Encourage free trade and promote global economic integration.
   (b) Increase government revenue through import taxes.
   (c) Improve the efficiency of domestic industries.
   (d) Limit the export of certain goods to other countries.
3. Ad valorem tariffs are calculated based on:
   (a) The quantity of imported goods.
   (b) The weight of imported goods.
   (c) The value or price of imported goods.
   (d) The environmental impact of imported goods.
4. Specific tariffs are calculated based on:
   (a) The quantity of imported goods.
   (b) The weight of imported goods.
   (c) The value or price of imported goods.
   (d) The environmental impact of imported goods.

5. The imposition of tariffs can lead to:
   (a) Lower consumer prices for imported goods.
   (b) Increased domestic consumption of imported goods.
   (c) A decrease in domestic production and employment in import-competing industries.
   (d) Enhanced global economic integration and international cooperation.
6. Tariffs are a form of:
   (a) Government subsidies to domestic industries
   (b) Trade liberalization
   (c) Trade protection
   (d) Foreign direct investment
7. Tariffs are taxes imposed on:
   (a) Domestic goods and services
   (b) Imports and exports
   (c) Foreign direct investment
   (d) Government expenditures
8. The primary purpose of imposing tariffs is to:
   (a) Encourage exports and foreign investment
   (b) Stimulate economic growth and job creation
   (c) Generate government revenue and protect domestic industries
   (d) Facilitate free trade and reduce trade barriers
9. A specific tariff is levied as a fixed amount per:
   (a) Unit of imported goods (b) Unit of exported goods
   (c) Unit of domestic production (d) Unit of foreign investment
10. An ad valorem tariff is levied as a percentage of the:
   (a) Value of imported goods (b) Value of domestic production
   (c) Value of foreign investment (d) Value of government revenue

1.2.1 Forms of Import Tariffs

1. Ad valorem tariffs are expressed as a percentage of the:
   (a) Importing country's GDP.
   (b) Value of the imported goods.
   (c) Number of units of the imported goods.
   (d) Exporting country's currency value.

2. Specific tariffs are imposed as a fixed amount per:
   (a) Unit of the imported goods.
   (b) Unit of the exporting country's currency.
   (c) Unit of the importing country's GDP.
   (d) Unit of the exporting country's GDP.
3. Compound tariffs are a combination of:
   (a) Specific tariffs and import quotas.
   (b) Ad valorem tariffs and export subsidies.
   (c) Ad valorem tariffs and specific tariffs.
   (d) Import quotas and export quotas.
4. Which of the following is an example of a revenue tariff?
   (a) A tariff imposed to protect domestic industries from foreign competition.
   (b) A tariff imposed to discourage the consumption of specific goods.
   (c) A tariff imposed to generate government revenue from imports.
   (d) A tariff imposed by an exporting country on its own goods.

(i) Specific Tariff:

1. What is a specific tariff?
   (a) A tax levied on imports that is calculated as a percentage of the value of the imported goods.
   (b) A tax levied on exports by the exporting country.
   (c) A tax levied on imports that is a fixed amount per unit of the imported goods.
   (d) A tax levied on the income of domestic producers.
2. A specific tariff is a type of import tariff that is imposed as a:
   (a) Fixed amount per unit of the exported goods.
   (b) Fixed amount per unit of the imported goods.
   (c) Percentage of the value of the exported goods.
   (d) Percentage of the value of the imported goods.
3. A specific tariff is a type of import tariff that is:
   (a) Imposed as a fixed amount per unit of the imported goods.
   (b) Expressed as a percentage of the value of the exported goods.
   (c) A payment made by the importing country to the exporting country.
   (d) Applied to all goods uniformly, regardless of their origin.

(ii) Ad valorem tariff:

1. An ad valorem tariff is a type of import tariff that is:
   (a) Imposed as a fixed amount per unit of the imported goods.
   (b) Expressed as a percentage of the value of the imported goods.
   (c) A payment made by the exporting country to the importing country.
   (d) Applied to all goods uniformly, regardless of their origin.

1.2.2 Effects of Tariffs

1. What is the effect of tariffs on domestic producers?
   (a) Encourages competition (b) Decreases efficiency
   (c) Increases efficiency (d) None of the above
2. What is the effect of tariffs on consumers?
   (a) Decreases the price of imported goods
   (b) Increases the price of imported goods
   (c) Does not affect the price of imported goods
   (d) None of the above
3. What is the effect of tariffs on international trade?
   (a) Encourages free trade
   (b) Decreases imports
   (c) Increases exports
   (d) None of the above
4. What is the effect of tariffs on government revenue?
   (a) Decreases government revenue
   (b) Increases government revenue
   (c) Has no effect on government revenue
   (d) None of the above

1.3 Non–Tariff Measures (NTMs)

1. What are Non-tariff measures (NTMs)?
   (a) Barriers to trade
   (b) Taxes on international trade
   (c) Regulations on international trade
   (d) None of the above
2. What is the purpose of non-tariff measures (NTMs)?
   (a) To increase competition
   (b) To decrease competition
   (c) To protect domestic industries
   (d) None of the above
3. What are some examples of non-tariff measures (NTMs)?
   (a) Quotas (b) Licenses
   (c) Quality standards (d) All of the above
4. What is the effect of non-tariff measures (NTMs) on international trade?
   (a) Encourages free trade
   (b) Increases imports
   (c) Decreases exports
   (d) Can either increase or decrease imports and exports depending on the specific measure
5. What are non-tariff measures (NTMs)?
   (a) Taxes on imported goods
   (b) Regulations, standards, and procedures that impact trade
   (c) Trade agreements between countries
   (d) None of the above
6. Non-tariff measures (NTMs) are trade policy instruments that do not involve:
   (a) Import and export restrictions
   (b) Trade liberalization
   (c) Government subsidies
   (d) Direct taxes on goods and services
7. Examples of non-tariff measures include:
   (a) Import tariffs and export quotas
   (b) Subsidies to domestic industries
   (c) Health and safety regulations, product standards, and licensing requirements
   (d) Fiscal policies and monetary policies
8. Non-tariff measures are often used to:
   (a) Promote free trade and globalization
   (b) Increase foreign direct investment
   (c) Facilitate cross-border trade and reduce transaction costs
   (d) Protect domestic industries, ensure product quality, and address environmental concerns

9. Voluntary export restraints (VERs) are an example of:
   (a) Export promotion policies
   (b) Trade liberalization measures
   (c) Non-tariff trade barriers imposed by the exporting country
   (d) Measures to stabilize foreign exchange rates
10. Sanitary and phytosanitary (SPS) measures are NTMs designed to:
   (a) Promote tourism and travel
   (b) Facilitate labor migration
   (c) Regulate the import and export of food, plants, and animals to ensure safety and prevent the spread of diseases
   (d) Encourage foreign investment in critical sectors

I. Technical Measures:

1. What are technical measures in international trade?
   (a) Regulations related to the technical aspects of products
   (b) Import taxes on technical products
   (c) Technical agreements between trading partners
   (d) None of the above
2. Why are technical measures used in trade?
   (a) To limit the import of particular products
   (b) To ensure that imported products meet local standards
   (c) To reduce competition from foreign products
   (d) None of the above
3. What are some examples of technical measures?
   (a) Product labeling and packaging requirements
   (b) Safety and environmental standards
   (c) Chemical content and composition restrictions
   (d) All of the above
4. What is the impact of technical measures on trade?
   (a) Increases competition from foreign products
   (b) Reduces competition from foreign products
   (c) Has no impact on competition from foreign products
   (d) None of the above

II. Non-technical Measures:

1. What are non-technical measures in international trade?
   (a) Regulations related to the technical aspects of products
   (b) Regulations not directly related to the technical aspects of products
   (c) Import taxes on non-technical products
   (d) None of the above
2. Why are non-technical measures used in trade?
   (a) To limit the import of particular products
   (b) To promote free and fair trade
   (c) To reduce competition from foreign products
   (d) None of the above
3. What are some examples of non-technical measures?
   (a) Licensing requirements for foreign companies
   (b) Government procurement policies
   (c) Investment restrictions
   (d) All of the above
4. What is the impact of non-technical measures on trade?
   (a) Increases competition from foreign products
   (b) Reduces competition from foreign products
   (c) Has no impact on competition from foreign products
   (d) Depends on the specific regulation

1.3.1 Technical Measures

1. Which of the following is an example of a technical measure in international trade?
   (a) Import quotas on foreign cars
   (b) Requirements for product safety labeling
   (c) Tariffs on textiles from foreign countries
   (d) Subsidies for domestic agricultural producers
2. What is the purpose of technical measures in international trade?
   (a) To limit the import of foreign products
   (b) To ensure that imported products meet local standards
   (c) To promote fair competition between countries
   (d) None of the above

3. Which of the following is an example of a technical measure related to environmental standards?
   (a) Restrictions on the use of hazardous chemicals in manufacturing
   (b) Requirements for product labeling and packaging
   (c) Quotas on the import of foreign textiles
   (d) Subsidies for domestic energy producers
4. How can technical measures impact trade between countries?
   (a) They can increase competition from foreign products
   (b) They can reduce competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific technical measure

I. Sanitary and Phytosanitary (SPS) Measures:

1. What are Sanitary and Phytosanitary (SPS) measures?
   (a) Technical measures related to environmental standards
   (b) Regulations related to the technical aspects of products
   (c) Regulations related to the health and safety of humans, animals, and plants
   (d) None of the above
2. What is the purpose of SPS measures?
   (a) To reduce competition from foreign products
   (b) To increase the import of foreign products
   (c) To protect human, animal, and plant health
   (d) None of the above
3. Which of the following is an example of an SPS measure?
   (a) A restriction on the import of foreign textiles to protect domestic textile manufacturers
   (b) A requirement for imported fruits to be free from a certain pest
   (c) A tax on foreign imports of cars to promote the domestic auto industry
   (d) None of the above
4. How can SPS measures impact trade between countries?
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific SPS measure

II. Technical Barriers To Trade (TBT)

1. What are Technical Barriers to Trade (TBT)?
   (a) Regulations related to the health and safety of humans, animals, and plants
   (b) Regulations related to the technical aspects of products
   (c) Regulations related to the environmental standards
   (d) None of the above
2. What is the purpose of Technical Barriers to Trade?
   (a) To restrict or limit importation of certain products
   (b) To promote fair competition between countries
   (c) To ensure that imported products meet local technical standards
   (d) All of the above
3. Which of the following is an example of a Technical Barrier to Trade?
   (a) Import quotas on foreign textiles
   (b) Requirements for labeling and packaging of pharmaceutical products
   (c) Tariffs on imported steel
   (d) Subsidies for domestic manufacturers
4. How can Technical Barriers to Trade impact trade between countries?
   (a) They can increase competition from foreign products
   (b) They can reduce competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific Technical Barrier to Trade

1.3.2 Non-technical Measures

1. What are non-technical measures in trade?
   (a) Regulations related to the technical aspects of products
   (b) Regulations related to the health and safety of humans, animals, and plants
   (c) Regulations related to non-tariff barriers, such as quotas and subsidies
   (d) None of the above

2. What is the purpose of non-technical measures?
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To ensure that imported products meet safety and quality standards
   (d) All of the above
3. Which of the following is an example of a non-technical measure?
   (a) Requirements for product labeling
   (b) Import quotas
   (c) Product testing requirements
   (d) All of the above
4. How can non-technical measures impact trade between countries?
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific non-technical measure

(i) Import Quotas:

1. What is an import quota?
   (a) A tax imposed on imported goods
   (b) A limit on the quantity of a particular product that can be imported
   (c) A requirement to label imported products
   (d) None of the above
2. What is the purpose of import quotas?
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To ensure that imported products meet safety and quality standards
   (d) None of the above
3. How can import quotas impact trade between countries?
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific import quota

4. Can import quotas be challenged under international trade rules?
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, import quotas cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements

(ii) Price Control Measures:

1. What are price control measures in trade?
   (a) Regulations that control the quality and safety of products
   (b) Regulations that control the prices of goods and services
   (c) Regulations that control the quantity of imports and exports
   (d) None of the above
2. What is the purpose of price control measures?
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To ensure that imported products meet safety and quality standards
   (d) To protect consumers from unfairly high prices
3. How can price control measures impact trade between countries?
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific price control measure
4. Can price control measures be challenged under international trade rules?
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, price control measures cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements

(iii) Non-automatic Licensing and Prohibitions:

1. What are non-automatic licensing and prohibitions in trade?
   (a) Regulations that control the quality and safety of products
   (b) Regulations that require special licenses for certain imported goods
   (c) Regulations that restrict or prohibit the import or export of certain products
   (d) None of the above
2. What is the purpose of non-automatic licensing and prohibitions?
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To ensure that imported products meet safety and quality standards
   (d) To protect national security or cultural heritage
3. How can non-automatic licensing and prohibitions impact trade between countries?
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific non-automatic licensing or prohibition
4. Can non-automatic licensing and prohibitions be challenged under international trade rules?
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, non-automatic licensing and prohibitions cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements

(iv) Financial Measures:

1. What are financial measures in trade?
   (a) Regulations that control the quality and safety of products
   (b) Regulations that control the prices of goods and services
   (c) Regulations that restrict or limit the flow of capital between countries
   (d) None of the above
2. What is the purpose of financial measures in trade?
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To protect domestic companies from foreign investment
   (d) To control the flow of capital for economic stability
3. How can financial measures impact trade between countries?
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can limit the ability of foreign companies to invest in a market
   (d) None of the above
4. Can financial measures be challenged under international trade rules?
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, financial measures cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements

(v) Measures Affecting Competition:

1. What are measures affecting competition in trade?
   (a) Regulations that control the quality and safety of products
   (b) Regulations that control the prices of goods and services
   (c) Regulations that restrict or limit the ability of companies to compete in a market
   (d) None of the above
2. What is the purpose of measures affecting competition in trade?
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To protect domestic companies from foreign competition
   (d) To prevent anti-competitive behavior and promote consumer welfare
3. How can measures affecting competition impact trade between countries?
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can limit the ability of foreign companies to compete in a market
   (d) None of the above

4. Can measures affecting competition be challenged under international trade rules?
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, measures affecting competition cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements

(vi) Government Procurement Policies:

1. What are government procurement policies in trade?
   (a) Policies that regulate the quality and safety of products purchased by the government
   (b) Policies that regulate the prices paid for products purchased by the government
   (c) Policies that regulate the process for government contracts and purchases
   (d) None of the above
2. What is the purpose of government procurement policies in trade?
   (a) To promote fair competition between companies for government contracts
   (b) To restrict or limit importation of certain products purchased by the government
   (c) To protect domestic suppliers from foreign competition for government contracts
   (d) To ensure transparency and accountability in government procurement processes
3. How can government procurement policies impact trade between countries?
   (a) They can restrict competition from foreign suppliers for government contracts
   (b) They can increase competition from foreign suppliers for government contracts
   (c) They can limit the ability of foreign suppliers to participate in government procurement processes
   (d) None of the above

4. Can government procurement policies be challenged under international trade rules?
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, government procurement policies cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements

(vii) Trade-Related Investment Measures:

1. What are Trade-Related Investment Measures (TRIMs)?
   (a) Policies that promote free trade and open markets
   (b) Policies that impose restrictions on trade and investments
   (c) Policies that facilitate foreign direct investment (FDI)
   (d) Policies that encourage the import of raw materials
2. Which organization oversees the Agreement on Trade-Related Investment Measures (TRIMs)?
   (a) International Monetary Fund (IMF)
   (b) World Trade Organization (WTO)
   (c) United Nations (UN)
   (d) World Bank
3. How do Trade-Related Investment Measures impact international trade?
   (a) They promote FDI and boost trade flows
   (b) They create barriers to trade and deter foreign investments
   (c) They only affect domestic investments, not international trade
   (d) They have no impact on trade or investment
4. Which of the following is an example of a TRIM?
   (a) Export subsidies to domestic producers
   (b) Tariffs on imported goods
   (c) Preferential treatment for local investors over foreign investors
   (d) Reducing bureaucratic procedures for all investors

(viii) Distribution Restrictions:

1. What do distribution restrictions in international trade refer to?
   (a) Policies that promote the free flow of goods and services across borders
   (b) Policies that restrict the distribution of goods and services within a country
   (c) Policies that encourage foreign direct investment (FDI)
   (d) Policies that reduce import tariffs
2. Which of the following is an example of a distribution restriction?
   (a) Export subsidies to domestic producers
   (b) Eliminating import quotas on specific products
   (c) Licensing requirements for the sale of certain goods
   (d) Reducing bureaucratic procedures for exporters
3. How do distribution restrictions impact trade and investment?
   (a) They promote cross-border trade and foreign investments
   (b) They facilitate the distribution of goods and services domestically
   (c) They create barriers to entry for foreign companies in the domestic market
   (d) They have no impact on trade or investment
4. Which international organization advocates for reducing distribution restrictions and trade barriers?
   (a) International Monetary Fund (IMF)
   (b) World Trade Organization (WTO)
   (c) United Nations (UN)
   (d) World Bank

(ix) Restriction on Post-sales Services:

1. What do restrictions on post-sales services in international trade refer to?
   (a) Policies that promote after-sales services for domestic products
   (b) Policies that regulate the provision of after-sales services for imported products
   (c) Policies that encourage foreign companies to invest in service sectors
   (d) Policies that reduce import tariffs on services
2. Which of the following is an example of a restriction on post-sales services?
   (a) Allowing foreign service providers to operate without any restrictions
   (b) Requiring special permits for domestic service providers to offer services
   (c) Providing tax incentives for companies offering after-sales services
   (d) Implementing a streamlined process for product imports
3. How can restrictions on post-sales services impact international trade?
   (a) They promote the free flow of services across borders
   (b) They enhance competition and efficiency in service sectors
   (c) They create barriers for foreign service providers in the domestic market
   (d) They have no impact on trade or investment
4. Which international trade principle do restrictions on post-sales services violate?
   (a) Most Favored Nation (MFN) treatment
   (b) National treatment
   (c) Export-oriented industrialization
   (d) Import substitution

(x) Administrative Procedures:

1. What do administrative procedures in international trade refer to?
   (a) Policies that promote the free flow of goods and services across borders
   (b) Processes and formalities related to customs and trade regulations
   (c) Policies that encourage foreign direct investment (FDI)
   (d) Policies that reduce import tariffs
2. Which of the following is an example of an administrative procedure in international trade?
   (a) Reducing trade barriers for specific products
   (b) Implementing export subsidies for domestic producers
   (c) Conducting customs inspections and document verification
   (d) Providing tax incentives to foreign investors

3. How can streamlined administrative procedures impact international trade?
   (a) They increase bureaucracy and slow down trade flows
   (b) They promote efficiency and facilitate cross-border transactions
   (c) They create barriers to entry for foreign companies
   (d) They have no impact on trade or investment
4. Which international organization advocates for simplifying administrative procedures and reducing trade barriers?
   (a) International Monetary Fund (IMF)
   (b) World Trade Organization (WTO)
   (c) United Nations (UN)
   (d) World Bank

(xi) Rules of origin:

1. What are Rules of Origin in international trade?
   (a) Guidelines for exporting goods to foreign countries
   (b) Criteria used to determine the country of origin of goods
   (c) Standards for product quality and safety in international trade
   (d) Guidelines for customs valuation of imported goods
2. Why are Rules of Origin important in trade agreements?
   (a) They encourage transshipment of goods between countries
   (b) They determine the quality and safety standards of imported goods
   (c) They prevent trade fraud and ensure fair trade practices
   (d) They only apply to certain types of services, not goods
3. Which of the following is an example of a Rule of Origin?
   (a) Reducing import tariffs on specific products
   (b) Conducting customs inspections at the border
   (c) Requiring a certain percentage of value-added to be produced locally
   (d) Implementing export quotas for certain industries
4. How do Rules of Origin affect global supply chains?
   (a) They promote reshoring of manufacturing activities to domestic markets
   (b) They encourage companies to offshore production to low-cost countries
   (c) They have no impact on global supply chains
   (d) They only apply to services, not manufacturing activities

(xii) Safeguard Measures:

1. What are Safeguard Measures in international trade?
   (a) Permanent trade restrictions on certain products
   (b) Temporary trade remedies to protect domestic industries from import surges
   (c) Preferential trade agreements between two or more countries
   (d) Subsidies provided by governments to support exports
2. When can a country apply Safeguard Measures under the WTO rules?
   (a) When imports are cheaper than domestically produced goods
   (b) When imports exceed a certain percentage of total trade
   (c) When domestic industries face serious injury or threat due to import surges
   (d) When there is a need to promote free trade and open markets
3. Which of the following is an example of a Safeguard Measure?
   (a) Reducing import tariffs to boost international trade
   (b) Imposing quotas on imported goods to protect domestic industries
   (c) Providing financial incentives for companies engaged in export activities
   (d) Implementing trade facilitation measures to streamline customs procedures
4. How long can Safeguard Measures typically be in place under WTO rules?
   (a) Indefinitely until a bilateral agreement is reached
   (b) Up to one year, with a possible extension to three years in exceptional cases
   (c) Until the domestic industry completely recovers from the import surge
   (d) Until all import duties are paid by the importing companies

(xiii) Embargos:

1. What are embargos in international trade?
   (a) Temporary trade remedies to protect domestic industries
   (b) Customs duties imposed on specific imported goods
   (c) Government-imposed restrictions that prohibit or limit trade with a specific country
   (d) Preferential trade agreements between multiple countries

2. Why do countries impose embargos in international trade?
   (a) To promote free trade and open markets
   (b) To encourage cross-border investments
   (c) To express disapproval or exert pressure on a targeted country
   (d) To streamline customs procedures for faster trade transactions
3. Which of the following is an example of an embargo?
   (a) Imposing import tariffs on foreign products
   (b) Implementing trade facilitation measures to improve customs procedures
   (c) Prohibiting all trade with a specific country
   (d) Signing a free trade agreement with neighboring nations
4. How do embargos impact international trade and economies?
   (a) They promote economic cooperation and growth among nations
   (b) They create trade opportunities for targeted countries
   (c) They can lead to economic isolation and disruptions in global supply chains
   (d) They have no significant impact on trade or economies

1.4. Export-Related Measures

1. What are export-related measures in international trade?
   (a) Government policies that restrict the import of specific goods
   (b) Actions taken by countries to promote and facilitate exports
   (c) Customs duties imposed on imported products
   (d) Measures to regulate foreign direct investment (FDI)
2. Which of the following is an example of an export-related measure?
   (a) Imposing quotas on the import of certain products
   (b) Implementing tax incentives for exporters
   (c) Prohibiting foreign companies from investing in domestic markets
   (d) Reducing trade barriers for specific industries
3. How can export-related measures benefit a country's economy?
   (a) By restricting foreign competition and protecting domestic industries
   (b) By encouraging imports and diversifying the domestic market
   (c) By promoting international trade and generating foreign exchange
   (d) By reducing the production of goods for domestic consumption

4. Which of the following is not an export-related measure?
   (a) Export subsidies to support domestic industries
   (b) Simplified customs procedures for importers
   (c) Establishing export processing zones for manufacturing goods
   (d) Imposing import tariffs on foreign products
5. Export subsidies are a type of export-related measure that involves:
   (a) Imposing taxes on exported goods
   (b) Providing financial incentives or support to domestic producers for exporting goods
   (c) Restricting the quantity of exported goods
   (d) Regulating the exchange rates for foreign buyers
6. Export quotas are a form of export-related measure that involves:
   (a) Providing tax breaks to exporters
   (b) Restricting the quantity of goods that can be exported
   (c) Offering subsidies to foreign buyers
   (d) Controlling the prices of exported goods
7. The purpose of export-related measures, such as export subsidies and export quotas, is to:
   (a) Encourage the import of foreign goods
   (b) Discourage domestic producers from exporting goods
   (c) Promote domestic consumption of goods
   (d) Support and boost the competitiveness of domestic industries in foreign markets
8. Export processing zones (EPZs) are designated areas that offer special incentives and benefits to:
   (a) Importers of foreign goods
   (b) Domestic producers selling goods in the domestic market
   (c) Foreign investors and exporters
   (d) Government officials involved in trade policymaking
9. The primary goal of establishing export processing zones (EPZs) is to:
   (a) Increase imports and foreign direct investment
   (b) Promote trade barriers and protectionism
   (c) Encourage economic growth through export-oriented industrialization
   (d) Support the growth of the domestic market and reduce reliance on exports

(i) Ban on exports:

1. What does a ban on exports in international trade signify?
   (a) A complete cessation of all imports and exports
   (b) A restriction on the imports of specific goods
   (c) A government-imposed prohibition on exporting certain goods
   (d) A policy encouraging free trade and open markets
2. Why might a country impose a ban on exports?
   (a) To promote international trade and economic growth
   (b) To maintain an adequate supply of essential goods domestically
   (c) To encourage foreign investment and technology transfer
   (d) To facilitate the movement of goods across borders
3. Which of the following is an example of a ban on exports?
   (a) Imposing import duties on specific goods
   (b) Implementing trade facilitation measures to expedite customs clearance
   (c) Prohibiting the export of certain agricultural products during a food crisis
   (d) Signing a free trade agreement with neighboring nations
4. How can a ban on exports affect international trade relations?
   (a) It fosters stronger economic ties and cooperation among nations
   (b) It may lead to trade disputes and strain diplomatic relations
   (c) It promotes harmonious trade balance between countries
   (d) It has no impact on international trade relations

(ii) Export Taxes:

1. What are export taxes in international trade?
   (a) Taxes imposed on imported goods to protect domestic industries
   (b) Taxes imposed on goods and services that are exported from a country
   (c) Taxes levied on foreign investments in the domestic market
   (d) Taxes imposed on the profits of multinational corporations
2. Why might a government impose export taxes?
   (a) To promote international trade and export-oriented industries
   (b) To discourage the export of certain goods and preserve domestic supplies
   (c) To encourage foreign investment and technology transfer
   (d) To reduce the budget deficit and increase government revenue
3. Which of the following is an example of an export tax?
   (a) Subsidizing domestic producers to compete in foreign markets
   (b) Reducing import duties on specific products
   (c) Imposing a tax on the export of raw materials
   (d) Providing financial incentives for companies engaged in export activities
4. How can export taxes impact a country's economy?
   (a) They encourage export-oriented industries and boost international trade
   (b) They promote the export of raw materials and strengthen domestic industries
   (c) They may lead to reduced export volumes and decreased competitiveness
   (d) They have no significant impact on the economy

(iii) Export Subsidies and Incentives:

1. What are export subsidies and incentives in international trade?
   (a) Taxes imposed on goods and services that are exported from a country
   (b) Financial benefits provided to domestic exporters to support their international trade activities
   (c) Taxes imposed on imported goods to protect domestic industries
   (d) Non-financial barriers that restrict the import of specific products
2. Why might a government offer export subsidies and incentives to its exporters?
   (a) To discourage the export of certain goods and preserve domestic supplies
   (b) To promote import-oriented industries and increase trade deficits

(c) To increase government revenue by taxing exports
(d) To enhance the competitiveness of domestic products in the global market

3. Which of the following is an example of an export incentive?
(a) Imposing tariffs on imported goods to protect domestic industries
(b) Providing financial assistance to exporters for marketing and promotion activities
(c) Implementing quotas on the import of specific products
(d) Prohibiting foreign companies from investing in the domestic market

4. How can export subsidies and incentives impact a country's exports and economy?
(a) They may lead to increased exports and boost economic growth
(b) They encourage import-oriented industries and increase trade deficits
(c) They have no impact on a country's exports or economy
(d) They only benefit foreign companies, not domestic exporters

(iv) Voluntary Export Restraints:

1. What are Voluntary Export Restraints (VERs) in international trade?
(a) Government-imposed restrictions on the import of specific goods
(b) Agreements between exporting and importing countries to limit export quantities voluntarily
(c) Financial benefits provided to domestic exporters to support international trade
(d) Non-financial barriers that restrict the import of certain products

2. Why do countries agree to Voluntary Export Restraints (VERs)?
(a) To encourage foreign direct investment (FDI)
(b) To promote free trade and open markets
(c) To avoid the imposition of more stringent trade restrictions, such as tariffs or quotas
(d) To increase government revenue from export taxes

3. Which of the following is an example of a Voluntary Export Restraint (VER)?
(a) Prohibiting all trade with a specific country
(b) Implementing import quotas on certain goods
(c) Restricting the export of specific products to a certain quantity
(d) Providing financial incentives to domestic exporters

4. How can Voluntary Export Restraints impact international trade?
(a) They promote unrestricted trade between countries
(b) They may lead to reduced availability of certain products in the importing country
(c) They have no impact on trade relations between countries
(d) They encourage countries to remove all trade barriers

ANSWER

1.1 Introduction

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(d)	(a)	(b)	(c)	(a)	(c)	(c)	(a)	(c)

1.2 Tariffs

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(b)	(b)	(c)	(a)	(c)	(c)	(b)	(c)	(a)	(a)

1.2.1 Forms of Import Tariffs

Q.No.	1	2	3	4						
Answer	(b)	(a)	(c)	(c)						

(i) Specific Tariff:

Q.No.	1	2	3							
Answer	(c)	(b)	(a)							

(ii) Ad valorem tariff

Q.No.	1								
Answer	(b)								

1.2.2 Effects of Tariffs

Q.No.	1	2	3	4					
Answer	(c)	(b)	(b)	(b)					

1.3 Non–Tariff Measures (NTMs)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(c)	(d)	(d)	(b)	(b)	(c)	(d)	(c)	(c)

I. Technical Measures:

Q.No.	1	2	3	4					
Answer	(a)	(b)	(d)	(b)					

II. Non-technical Measures:

Q.No.	1	2	3	4					
Answer	(b)	(a)	(d)	(b)					

1.3.1 Technical Measures

Q.No.	1	2	3	4					
Answer	(b)	(b)	(a)	(b)					

I Sanitary and Phytosanitary (SPS) Measures:

Q.No.	1	2	3	4					
Answer	(c)	(c)	(b)	(d)					

II Technical Barriers To Trade (TBT)

Q.No.	1	2	3	4					
Answer	(b)	(c)	(b)	(b)					

1.3.2 Non-technical Measures

Q.No.	1	2	3	4					
Answer	(c)	(d)	(b)	(a)					

(i) Import Quotas:

Q.No.	1	2	3	4					
Answer	(b)	(b)	(a)	(a)					

(ii) Price Control Measures:

Q.No.	1	2	3	4					
Answer	(b)	(d)	(a)	(a)					

(iii) Non-automatic Licensing and Prohibitions:

Q.No.	1	2	3	4					
Answer	(b)	(b)	(a)	(a)					

(iv) Financial Measures:

Q.No.	1	2	3	4					
Answer	(c)	(a)	(c)	(c)					

(v) Measures Affecting Competition:

Q.No.	1	2	3	4					
Answer	(c)	(d)	(c)	(a)					

(vi) Government Procurement Policies:

Q.No.	1	2	3	4						
Answer	(c)	(d)	(a)	(a)						

(vii) Trade-Related Investment Measures:

Q.No.	1	2	3	4						
Answer	(b)	(b)	(b)	(c)						

(viii) Distribution Restrictions:

Q.No.	1	2	3	4						
Answer	(b)	(c)	(c)	(b)						

(ix) Restriction on Post-sales Services:

Q.No.	1	2	3	4						
Answer	(b)	(b)	(c)	(b)						

(x) Administrative Procedures:

Q.No.	1	2	3	4						
Answer	(b)	(c)	(b)	(b)						

(xi) Rules of origin:

Q.No.	1	2	3	4						
Answer	(b)	(c)	(c)	(b)						

(xii) Safeguard Measures:

Q.No.	1	2	3	4						
Answer	(b)	(c)	(b)	(b)						

(xiii) Embargos:

Q.No.	1	2	3	4						
Answer	(c)	(c)	(c)	(c)						

1.4. Export-Related Measures

Q.No.	1	2	3	4	5	6	7	8	9	
Answer	(b)	(b)	(c)	(b)	(b)	(b)	(d)	(c)	(c)	

(i) Ban on exports:

Q.No.	1	2	3	4						
Answer	(c)	(b)	(c)	(b)						

(ii) Export Taxes:

Q.No.	1	2	3	4						
Answer	(b)	(b)	(c)	(c)						

(iii) Export Subsidies and Incentives:

Q.No.	1	2	3	4						
Answer	(b)	(d)	(b)	(a)						

(iv) Voluntary Export Restraints:

Q.No.	1	2	3	4						
Answer	(b)	(c)	(c)	(b)						

PAST YEAR QUESTIONS AND ANSWERS

2024 - JUNE

[1] A total ban imposed by government on imports and exports of some or all commodities to particular country or regions for a specified or indefinite period is termed as:
(a) Embargo (b) Safeguard measure
(c) Distribution restrictions (d) Restrictive measures (1 mark)

Answer:

(a) Total ban imposed by government on import or export of some or all commodities to country or regions for specified or indefinite period due to political or health, or religious reasons or sentiments. An embargo is the most extreme form of trade barrier.

[2] Which of the following is levied as a fixed/constant percentage on money value of an imported or exported good?
(a) Ad valorem tariff
(b) Compound tariff
(c) Specific tariff
(d) Bound tariff (1 mark)

Answer:

(a) Ad Valorem Tariff: It is the tariff levied as fixed or constant percentage on the money value of an imported good.

[3] Which of the following is not negative outcome of tariffs?
(a) Decreases revenue to government
(b) Producers of importing country increase well-being
(c) Domestic consumers suffer a loss in consumer surplus
(d) By ignoring comparative advantage, tariffs discourage effective production in rest of world (1 mark)

Answer:

(b) Tariffs increase government revenues, produce surplus and discourage consumer surplus and also efficient production in rest of world.

2024 - SEPTEMBER

[1] A tariff which a WTO member binds itself with a legal commitment not to raise tariff rate above a certain level is known as:
(a) Bound tariff (b) Applied tariff
(c) Specific tariff (d) Most-favoured nation tariffs
(1 mark)

Answer:

(a) Bound tariff
A bound tariff is a commitment made by a World Trade Organization (WTO) member not to increase a tariff rate above an agreed level. Once a tariff is "bound," the country cannot raise it without compensating affected parties.

[2] Which of the following is covered under Technical Barriers to Trade (TBT)?
(a) Only non-food traded products.
(b) Only food products.
(c) Only technical standard products.
(d) Both food and non-food traded products. (1 mark)

Answer:

(d) Both food and non-food traded products.
Technical Barriers to Trade (TBT) cover regulations, standards, and procedures related to both food and non-food products. They aim to ensure that products meet certain requirements for safety, quality, and performance.

[3] The North American Free Trade Agreement (NAFTA), is a trade agreement signed between:
(a) United States of America, Canada and Mexico
(b) United States of America and Canada

(c) United States of America and Mexico
(d) Canada and Mexico (1 mark)

Answer:

(a) United States of America, Canada and Mexico
The North American Free Trade Agreement (NAFTA) was a trade agreement between the United States, Canada and Mexico, aimed at reducing trade barriers and promoting economic integration among the three countries. It has since been replaced by the United States-Mexico-Canada Agreement (USMCA) in 2020.

2025 - JANUARY

[1] Which tariff is calculated on the basis of specific contents of the imported goods (duties are payable by its components or related items)?
(a) Compound tariff
(b) Mixed tariff
(c) Ad valorem tariff
(d) Technical tariff (1 mark)

Answer:

(d) Technical/Other Tariff

Explanation:

These are calculated on the basis of the specific contents of the imported goods i.e. the duties are payable by its components or related items. For example: ₹ 3000/ on each solar panel plus ₹ 50/ per kg on the battery. Therefore, the correct answer is: (D) Technical Tariff.

[2] Which tariff is expressed either on the basis of the value of the imported goods or on the basis of a unit of measure of the imported goods depending on which generates the most income (or least income at times) for the country?
(a) Ad valorem tariff
(b) Specific tariff
(c) Mixed tariff
(d) Compound tariff (1 mark)

Answer:

(c) Mixed tariff

Explanation:

A mixed tariff is a combination of both ad valorem tariff (based on the value of the imported goods) and specific tariff (based on a unit of measure, such as weight or quantity). The government may use the type of tariff that generates the most revenue, depending on the circumstances, such as the value or volume of the imports.

[3] The system wherein the nominal tariff rates on imports of manufactured goods are higher than the nominal tariff rates on intermediate inputs and raw materials is known as ______.
(a) Applied tariff
(b) Escalated tariff
(c) Bound tariff
(d) Preferential tariff (1 mark)

Answer:

(b) Escalated tariff

Explanation:

An escalated tariff system is where nominal tariff rates on imports of manufactured goods are higher than the rates on intermediate inputs and raw materials. This system is designed to encourage domestic processing and manufacturing by making it cheaper to import raw materials and intermediate goods compared to finished products.

[4] Which of the following is a measure to protect human, animal or plant life from risks arising out of additives, pests, toxins, etc. and to protect the biodiversity?
(a) Prohibited tariff
(b) Sanitary and phytosanitary measures
(c) Technical barriers to trade
(d) Anti-dumping duties (1 mark)

Answer:

(b) Sanitary and phytosanitary measures

Explanation:

The measures implemented to protect human, animal, or plant life from risks arising from additives, pests, toxins, and to safeguard biodiversity are known as Sanitary and Phytosanitary (SPS) measures. These measures are established under the World Trade Organization's (WTO) Agreement on the Application of Sanitary and Phytosanitary Measures. They allow countries to set their own standards to ensure food safety and protect animal and plant health, provided these standards are based on scientific principles and do not unjustifiably restrict international trade.

Therefore, the correct answer is: **(B) Sanitary and Phytosanitary measures.**

[5] A total ban imposed by the Government on imports or exports of some or all commodities to a particular country or regions for a specified or indefinite period is known as ______.

(a) Prohibitive tariff
(b) Anti-dumping duties
(c) Embargo
(d) Rules of origin (1 mark)

Answer:

(c) Embargo

Explanation:

An embargo is a total ban or restriction imposed by a government on imports or exports of certain commodities to a particular country or region, either for a specified period or indefinitely. This is typically done for political, economic, or security reasons.

2025 - May

[1] What is the Ad valorem tariff ?

(a) The fixed amount of money per physical unit or weight of commodity imported or exported.
(b) A fixed time period for tariff application per calendar year.
(c) The duty levied as a fixed percentage of the value of the traded commodity.
(d) A flat rate imposed regardless of the product's value. (1 mark)

[2] A tariff that is set so high that no imports can enter is known as ________.

(a) Prohibitive Tariff (b) Bound Tariff
(c) Escalated Tariff (d) Variable Tariff (1 mark)

Core Concepts

- Define trade policy and its role in regulating international trade.
- Explain the key instruments of trade policy:
- Tariffs: Taxes on imports or exports.
- Quotas: Limits on the quantity of goods that can be traded.
- Subsidies: Financial support to domestic industries.
- Anti-Dumping Measures: Actions against unfair pricing by foreign firms.
- Non-Tariff Barriers: Standards, licenses, and regulations.
- Highlight the objectives of trade policies: protecting domestic industries, generating revenue, and promoting exports.
- Discuss the difference between protectionist and liberal trade policies.

Motivational Thoughts

- "Trade policy is the art of balancing protection with progress."
- "A well-crafted trade policy shapes the economic destiny of nations."
- "Instruments of trade policy are tools to navigate the complex waters of globalization."
- "A nation's trade policy reflects its economic priorities and global aspirations."
- "Effective trade policies ensure that globalization benefits everyone."

Checklist for Learning

- Memorize the key instruments of trade policy and their definitions.
- Understand the purpose of tariffs, quotas, and subsidies in trade regulation.
- Learn the impact of anti-dumping measures on global trade.
- Study the effects of non-tariff barriers on international trade.
- Review real-world examples of trade policy instruments in action.

Fun Facts

- The Smoot-Hawley Tariff Act of 1930 is often blamed for worsening the Great Depression.
- Countries like Japan and South Korea used export subsidies to boost their economies in the 20th century.
- Anti-dumping duties were first introduced in Canada in 1904.
- Non-tariff barriers like safety standards can be as restrictive as tariffs.
- India's imposition of high tariffs on Chinese goods in 2020 highlighted the strategic use of trade policies.

Engaging Activities

- Role-play as policymakers deciding on tariffs and subsidies for a specific industry.
- Group activity: Identify examples of trade policy instruments used in your country.
- Debate: Are protectionist policies still necessary for developing economies?
- Create diagrams showing the effects of tariffs and quotas on trade.
- Analyze how export subsidies impact domestic industries and global competitiveness.

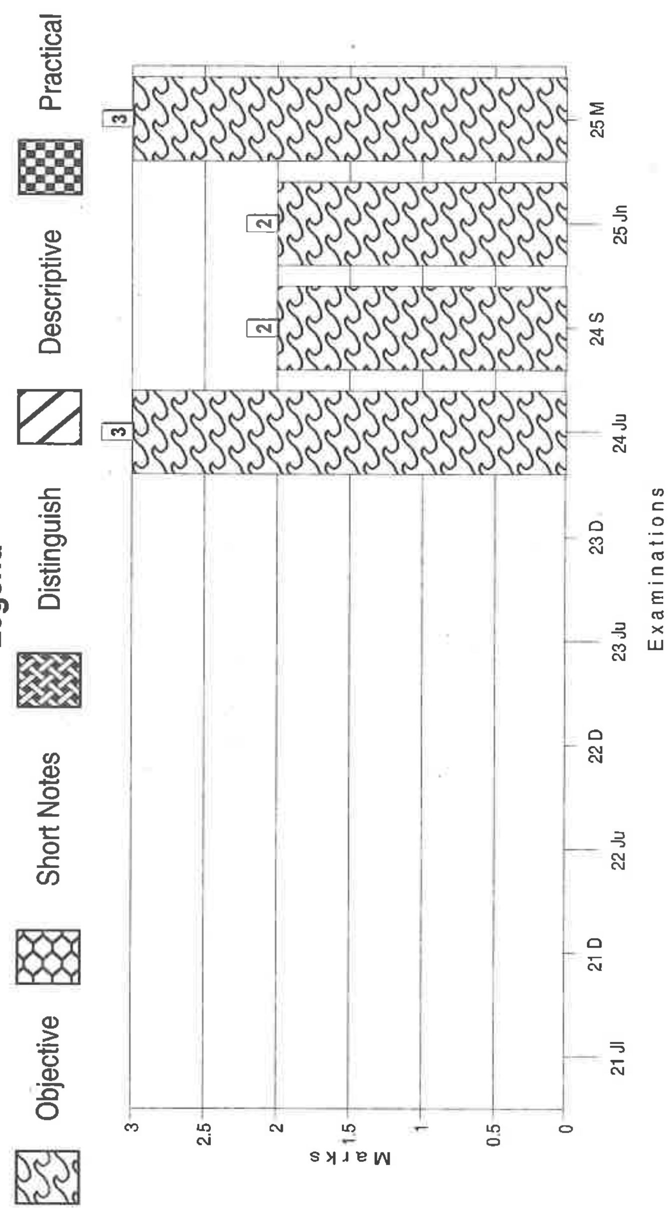
Practical Analysis

- Study the effects of tariff reductions on your country's trade balance.
- Analyze a specific case of anti-dumping measures in global trade.
- Investigate how quotas impact the availability and price of imported goods.
- Compare the trade policies of two countries and their effects on exports and imports.
- Research the role of subsidies in promoting renewable energy industries.

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



9.3 Trade Negotiations

1. Tariffs

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Sep	3	2025-May	1		

2. Taxonomy of Regional Trade Agreements (RTAs)

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Sep	1				

3. The General Agreement on Tariffs and Trade (GATT)

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Jun	1	2024-Jun	2	2024-Jun	3
2025-May	2				

4. The World Trade Organization (WTO)

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Sep	2	2025-Jan	1	2025-May	3

5. G 20 Economies: Facilitating Trade

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2025-Jan	2				

MODEL QUESTIONS

1.1 Introduction

1. What are trade negotiations?
   (a) Talks between countries to impose tariffs on imports
   (b) Discussions between governments to limit exports
   (c) Negotiations between parties to reach agreements on trade-related issues
   (d) Bilateral agreements to promote import substitution
2. Which organization plays a significant role in facilitating global trade negotiations?
   (a) International Monetary Fund (IMF)
   (b) World Bank
   (c) United Nations (UN)
   (d) World Trade Organization (WTO)
3. What is the primary objective of trade negotiations?
   (a) To promote protectionism and restrict international trade
   (b) To eliminate all trade barriers and achieve complete free trade
   (c) To enhance cooperation among countries in trade matters
   (d) To impose export restrictions on sensitive goods
4. Which trade negotiation round led to the establishment of the WTO in 1995?
   (a) Doha Round
   (b) Tokyo Round
   (c) Uruguay Round
   (d) Seattle Round
5. What is the role of trade negotiators in the negotiation process?
   (a) To prioritize the interests of their home country without compromise
   (b) To find win-win solutions and address the concerns of all parties involved
   (c) To impose unilateral trade policies on other negotiating countries
   (d) To advocate for import substitution and reject foreign goods
6. Trade negotiations are formal discussions and dialogues between countries or trading blocs aimed at:
   (a) Promoting protectionism and trade barriers
   (b) Increasing foreign direct investment
   (c) Facilitating trade liberalization and reducing trade barriers
   (d) Regulating exchange rates and monetary policies
7. The World Trade Organization (WTO) plays a significant role in international trade negotiations by:
   (a) Imposing trade sanctions on non-compliant countries
   (b) Establishing a unified global currency
   (c) Setting international standards for labor practices
   (d) Providing a platform for multilateral trade negotiations and dispute settlement
8. Bilateral trade negotiations involve discussions between:
   (a) Two countries or trading partners
   (b) Multiple countries and regional blocs
   (c) The World Bank and the International Monetary Fund (IMF)
   (d) The United Nations and the World Trade Organization (WTO)
9. The Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) are examples of:
   (a) Multilateral trade agreements
   (b) Bilateral trade agreements
   (c) Trade blocs or regional trade agreements
   (d) Trade negotiations between developed and developing countries
10. Trade negotiations aim to address various trade-related issues, including:
   (a) Environmental protection and climate change policies
   (b) Currency exchange rate manipulation
   (c) Intellectual property rights and market access
   (d) Military alliances and defense spending

1.2 Taxonomy of Regional Trade Agreements (TRTAs)

1. What is a Regional Trade Agreement (RTA)?
   (a) An agreement between two or more countries to impose tariffs on imports
   (b) An agreement between two or more countries to promote free trade within a specific region

(c) An agreement between countries and international organizations to regulate global trade
(d) An agreement between countries to restrict foreign direct investment (FDI)

2. What is the main objective of a Regional Trade Agreement (RTA)?
(a) To restrict the flow of goods and services among member countries
(b) To encourage trade and economic cooperation within the region
(c) To impose higher tariffs on imports from non-member countries
(d) To prevent foreign companies from investing in the region

3. Which type of Regional Trade Agreement (RTA) involves the highest level of economic integration among member countries?
(a) Free Trade Area (FTA) (b) Customs Union (CU)
(c) Common Market (CM) (d) Economic Union (EU)

4. What is the key difference between a Free Trade Area (FTA) and a Customs Union (CU)?
(a) In an FTA, member countries have a common external trade policy, while in a CU, they don't.
(b) In an FTA, member countries have a common currency, while in a CU, they don't.
(c) In an FTA, member countries have a common market, while in a CU, they don't.
(d) In an FTA, member countries have a common customs territory, while in a CU, they don't.

5. Which Regional Trade Agreement (RTA) allows for the free movement of goods, services, capital, and labor among member countries?
(a) Free Trade Area (FTA)
(b) Customs Union (CU)
(c) Common Market (CM)
(d) Economic Union (EU)

6. Regional Trade Agreements (RTAs) are agreements between:
(a) Two or more countries within a region to promote trade and economic integration
(b) A country and the World Trade Organization (WTO)
(c) Developing countries and developed countries
(d) Countries and international organizations such as the World Bank

7. Preferential Trade Agreements (PTAs) are a type of RTA that:
(a) Reduce or eliminate trade barriers between member countries
(b) Impose higher tariffs on imports from non-member countries
(c) Apply trade restrictions only to certain products and industries
(d) Promote exports but do not impact imports

8. Free Trade Areas (FTAs) are RTAs that aim to:
(a) Promote fair trade practices between member countries
(b) Establish a common currency for member countries
(c) Encourage trade and remove most or all trade barriers within the region
(d) Increase tariffs and protectionism to protect domestic industries

9. Customs Unions are RTAs that involve:
(a) The establishment of a common external tariff on imports from non-member countries
(b) Joint management of natural resources by member countries
(c) The formation of a military alliance between member countries
(d) Coordination of monetary policies and exchange rates among member countries

10. Common Markets are RTAs that go beyond customs unions and also allow for:
(a) Free movement of goods and services, but not labor and capital, within the region
(b) Free movement of labor and capital, but not goods and services, within the region
(c) Free movement of goods, services, labor, and capital within the region
(d) The formation of a common defense and security policy among member countries

1.3 The General Agreement on Tariffs and Trade (GATT)

1. What is the General Agreement on Tariffs and Trade (GATT)?
(a) An international organization that regulates global trade and investment
(b) A regional trade agreement between North American countries

(c) A multilateral treaty that aims to promote free trade by reducing tariffs and trade barriers
(d) A bilateral agreement between two countries to facilitate trade in specific goods

2. When was GATT established?
(a) 1947
(b) 1957
(c) 1967
(d) 1977

3. Which international organization evolved from GATT?
(a) United Nations (UN)
(b) World Bank
(c) World Trade Organization (WTO)
(d) International Monetary Fund (IMF)

4. What is the most-favored-nation (MFN) principle under GATT?
(a) A country should grant the best trade terms to its most important trading partners
(b) A country should provide preferences to its neighboring nations in trade matters
(c) A country should impose higher tariffs on goods from less developed countries
(d) A country should treat all its trading partners equally, without discrimination

5. How did GATT contribute to the reduction of trade barriers?
(a) By promoting import substitution policies
(b) By imposing high tariffs on imported goods
(c) By conducting trade negotiations and tariff rounds
(d) By implementing export subsidies for domestic industries

6. The General Agreement on Tariffs and Trade (GATT) was established in:
(a) 1944
(b) 1947
(c) 1951
(d) 1955

7. The main objective of the GATT was to:
(a) Promote regional trade agreements among developing countries
(b) Facilitate trade negotiations between developed and developing countries
(c) Reduce tariffs and trade barriers among member countries
(d) Establish a unified global currency

8. The GATT operated as a multilateral agreement to:
(a) Establish a common currency for all member countries
(b) Regulate the stock market and financial institutions
(c) Set international labor standards
(d) Promote the liberalization of international trade

9. The GATT was succeeded by the World Trade Organization (WTO) in:
(a) 1995 (b) 2000
(c) 1980 (d) 1975

10. The principle of most-favored-nation (MFN) treatment under the GATT meant that:
(a) All member countries were treated equally without discrimination
(b) Developing countries received preferential treatment in trade negotiations
(c) Member countries were required to impose tariffs on non-member countries
(d) Trade barriers were imposed on specific products and industries

1.4 The Uruguay Round and the Establishment of WTO

1. What was the Uruguay Round in the context of international trade?
(a) A series of negotiations to regulate foreign direct investment (FDI)
(b) Talks between developed and developing countries to address climate change
(c) A comprehensive set of trade negotiations to reform and liberalize global trade
(d) A summit to discuss global poverty and humanitarian aid

2. When did the Uruguay Round take place?
(a) 1970-1979
(b) 1986-1994
(c) 1995-2004
(d) 2008-2016

3. What was the outcome of the Uruguay Round negotiations?
   (a) The establishment of the World Trade Organization (WTO)
   (b) The formation of the International Monetary Fund (IMF)
   (c) The creation of regional trade blocs in different parts of the world
   (d) The imposition of import tariffs on specific products
4. What is the main function of the World Trade Organization (WTO)?
   (a) To regulate foreign direct investment (FDI) among member nations
   (b) To establish common monetary policies among member nations
   (c) To promote international cooperation in environmental protection
   (d) To facilitate global trade and ensure the adherence to trade rules
5. How does the World Trade Organization (WTO) resolve trade disputes between member countries?
   (a) By imposing economic sanctions on non-compliant countries
   (b) By referring disputes to an independent dispute settlement body
   (c) By encouraging member countries to engage in military actions
   (d) By imposing import quotas on the countries involved in the
6. The Uruguay Round was a series of negotiations that took place under the auspices of:
   (a) The United Nations (UN)
   (b) The World Bank
   (c) The International Monetary Fund (IMF)
   (d) The General Agreement on Tariffs and Trade (GATT)
7. The Uruguay Round negotiations were initiated in:
   (a) 1986 (b) 1988
   (c) 1990 (d) 1994
8. The main objective of the Uruguay Round was to:
   (a) Reduce agricultural subsidies and support
   (b) Restrict the trade of developing countries
   (c) Address emerging environmental issues in international trade
   (d) Create a more comprehensive and effective international trade agreement
9. The Uruguay Round resulted in the establishment of the World Trade Organization (WTO) in:
   (a) 1986 (b) 1990
   (c) 1994 (d) 1995
10. The WTO is an international organization that oversees and monitors and enforces global trade rules and agreements among its member countries. Its headquarters are located in:
   (a) Geneva, Switzerland (b) New York, USA
   (c) Brussels, Belgium (d) Tokyo, Japan

1.5 The World Trade Organization (WTO)

1. What is the World Trade Organization (WTO)?
   (a) A global organization that regulates foreign direct investment (FDI)
   (b) An intergovernmental organization that promotes regional trade agreements
   (c) An international body that oversees and regulates global trade
   (d) A group of countries that collaborate to establish a common currency
2. When was the World Trade Organization (WTO) established?
   (a) 1947 (b) 1986
   (c) 1995 (d) 2001
3. What is the primary objective of the WTO?
   (a) To promote regional economic integration among member countries
   (b) To regulate foreign investments and capital flows
   (c) To reduce trade barriers and facilitate international trade
   (d) To enforce labor and environmental standards in member countries
4. How does the WTO settle trade disputes between member countries?
   (a) By imposing sanctions on non-compliant countries
   (b) By conducting independent investigations and trials
   (c) Through a dispute settlement mechanism with a panel of experts
   (d) By referring disputes to the United Nations (UN) for resolution
5. Which of the following agreements is NOT under the purview of the WTO?
   (a) General Agreement on Tariffs and Trade (GATT)
   (b) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

(c) Agreement on Agriculture (AoA)
(d) North American Free Trade Agreement (NAFTA)

6. The World Trade Organization (WTO) is an international organization that deals with the global rules of trade among its member countries. It officially commenced operations on:
(a) January 1, 1995 (b) January 1, 2000
(c) January 1, 1990 (d) January 1, 1985

7. The WTO is headquartered in:
(a) Washington, D.C., USA (b) Brussels, Belgium
(c) Geneva, Switzerland (d) New York, USA

8. The WTO operates on the principle of __________, which means that any trade concession granted to one member country should be extended to all member countries.
(a) Most-Favored Nation (MFN)
(b) Free Trade Area (FTA)
(c) Preferential Trade Agreement (PTA)
(d) Customs Union (CU)

9. The highest decision-making body of the WTO is the Ministerial Conference, which meets at least once every:
(a) Two years (b) Four years
(c) Six years (d) Eight years

10. The WTO has a dispute settlement mechanism that allows member countries to resolve trade disputes in a rules-based manner. If a dispute cannot be resolved through consultations, it may be brought before a panel of experts. The final appellate body for dispute settlement in the WTO is known as the:
(a) Dispute Resolution Panel (DRP)
(b) Appellate Body (AB)
(c) Trade Dispute Arbitration Board (TDAB)
(d) Dispute Resolution Court (DRC)

1.5.1 The Structure of the WTO

1. What is the highest decision-making body of the World Trade Organization (WTO)?
(a) General Council (b) Ministerial Conference
(c) Appellate Body (d) Dispute Settlement Body

2. Which of the following is responsible for the daily functioning of the WTO and implementation of decisions?
(a) General Council (b) Ministerial Conference
(c) Director-General (d) Dispute Settlement Body

3. Which WTO body is responsible for the settlement of disputes between member countries?
(a) General Council (b) Dispute Settlement Body
(c) Appellate Body (d) Ministerial Conference

4. Which WTO body reviews appeals of panel decisions in trade disputes?
(a) General Council (b) Dispute Settlement Body
(c) Appellate Body (d) Ministerial Conference

5. What is the primary function of the General Council of the WTO?
(a) To administer trade agreements and monitor trade policies of member countries
(b) To oversee the daily functioning of the WTO and resolve budgetary matters
(c) To approve new members' accession to the WTO
(d) To set the strategic direction and goals for the WTO's work

1.5.2 The Guiding Principles of World Trade Organization (WTO)

1. What are the guiding principles of the World Trade Organization (WTO)?
(a) Protectionism and import substitution
(b) Free trade, non-discrimination, and transparency
(c) Bilateral trade agreements and export-oriented policies
(d) Monetary policy coordination among member countries

2. Which principle of the WTO promotes the removal of trade barriers, such as tariffs and quotas?
(a) Free trade
(b) Non-discrimination
(c) Transparency
(d) Special and differential treatment

3. What does the principle of non-discrimination in the WTO entail?
(a) Giving preferential treatment to least-developed countries
(b) Treating foreign and domestic products equally in trade matters
(c) Restricting imports to protect domestic industries
(d) Imposing export tariffs on certain goods
4. How does the WTO promote transparency in trade policies?
(a) By imposing trade sanctions on non-compliant member countries
(b) By providing financial assistance to developing nations
(c) By conducting regular trade policy reviews and notifications
(d) By implementing quotas on specific products
5. What is the principle of special and differential treatment in the WTO?
(a) Imposing differential tariffs on imports from different countries
(b) Granting preferential trade agreements to certain member countries
(c) Providing financial aid to least-developed countries for trade-related capacity building
(d) Allowing countries to set their own monetary policies independently

1.6 The Doha Round

1. What is the Doha Round in the context of international trade?
(a) A series of negotiations to establish a common currency among member countries
(b) A round of trade talks aimed at promoting regional economic integration in Europe
(c) A multilateral trade negotiation under the World Trade Organization (WTO)
(d) A regional trade agreement between South American countries
2. What was the main objective of the Doha Round?
(a) To establish a common monetary policy among member countries
(b) To promote import substitution policies in developing nations
(c) To reduce trade barriers and address the concerns of developing countries
(d) To restrict foreign direct investment (FDI) in developing economies

3. Why was the Doha Round often referred to as the "Development Round"?
(a) Because it focused on increasing foreign aid to developing countries
(b) Because it aimed to promote export-oriented policies in developing economies
(c) Because it emphasized addressing the trade-related needs of developing countries
(d) Because it sought to impose higher tariffs on imports from developing nations
4. What were some of the key issues of contention in the Doha Round negotiations?
(a) Climate change policies and environmental regulations
(b) Immigration and border control measures
(c) Intellectual property rights and access to essential medicines
(d) Currency exchange rates and monetary policies
5. Why did the Doha Round face challenges and delays in reaching a comprehensive agreement?
(a) Due to the lack of interest from developed countries in trade liberalization
(b) Because developing countries were not willing to participate in the negotiations
(c) Due to disagreements among member countries on various trade-related issues
(d) Because the World Trade Organization (WTO) lacked the authority to enforce trade agreements
6. The Doha Round is a series of trade negotiations that were launched under the auspices of the World Trade Organization (WTO) in:
(a) 1995 (b) 2001
(c) 2005 (d) 2010
7. The main objective of the Doha Round was to:
(a) Establish a global currency for all member countries
(b) Focus on environmental and climate change issues related to international trade

(c) Address trade barriers and promote development in developing countries
(d) Create a regional trade agreement between developed countries

8. One of the significant issues of the Doha Round negotiations was related to:
(a) Intellectual property rights and copyright protection
(b) Currency exchange rate manipulation
(c) Agricultural subsidies and market access for agricultural products
(d) Environmental standards in manufacturing industries

9. The Doha Development Agenda (DDA) is a set of trade negotiation goals and objectives specifically aimed at:
(a) Promoting trade liberalization among developed countries
(b) Reducing trade barriers for small and medium-sized enterprises (SMEs)
(c) Addressing the trade concerns of developing countries and improving their access to global markets
(d) Expanding trade in the services sector, such as finance and telecommunications

1.7 G 20 Economies: Facilitating Trade

1. What is the G20?
(a) An organization of 20 countries focused on facilitating international trade
(b) A group of 20 economies that promote regional economic integration
(c) A forum of major advanced and emerging economies addressing global economic issues
(d) A trade bloc formed by 20 countries to impose trade restrictions on non-members

2. How can the G20 economies facilitate international trade?
(a) By imposing tariffs and quotas on imports from non-member countries
(b) By implementing trade agreements among member countries
(c) By fostering economic growth and stability to promote global trade
(d) By providing financial aid to developing countries for trade-related infrastructure

3. Which of the following is NOT a direct role of the G20 in trade facilitation?
(a) Negotiating bilateral trade agreements between member countries
(b) Discussing trade-related issues among member countries
(c) Addressing trade imbalances and protectionist measures
(d) Encouraging the reduction of trade barriers

4. How do G20 discussions on global economic issues impact international trade?
(a) They can lead to the formation of regional trade blocs
(b) They may result in the harmonization of trade policies among member countries
(c) They have no direct impact on international trade
(d) They focus solely on monetary policies and do not address trade matters

5. What is the G20's stance on protectionism?
(a) The G20 encourages its member countries to embrace protectionist measures to safeguard domestic industries
(b) The G20 supports open markets and rejects protectionism in global trade
(c) The G20 imposes tariffs on goods from non-member countries to protect its economies
(d) The G20 allows its member countries to implement import quotas on specific products

6. The G 20 is a group of major advanced and emerging economies that represent about __________ of the world's GDP and __________ of the global trade.
(a) 20%; 50% (b) 40%; 80%
(c) 80%; 75% (d) 80%; 70%

7. The G 20 economies play a significant role in facilitating trade by:
(a) Establishing a common currency for all member countries
(b) Imposing higher tariffs on imports from non-member countries
(c) Promoting protectionist trade policies
(d) Cooperating on international trade and economic issues

8. The G 20 economies have held summits since:
   (a) 1995 (b) 2008
   (c) 2001 (d) 2005
9. The G20 economies focus on addressing global economic challenges, promoting financial stability, and enhancing cooperation on international trade to foster:
   (a) Regional trade agreements
   (b) Protectionist trade measures
   (c) Sustainable and inclusive economic growth
   (d) Exchange rate manipulation
10. One of the key objectives of the G20 economies is to foster open and predictable trade policies that promote:
   (a) Trade restrictions and barriers
   (b) Free trade agreements among member countries
   (c) Bilateral trade agreements with non-member countries
   (d) Economic growth, job creation, and global prosperity through international trade

ANSWER

1.1 Introduction

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(d)	(c)	(c)	(b)	(c)	(d)	(a)	(c)	(c)

1.2 Taxonomy of Regional Trade Agreements (RTAS)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(b)	(b)	(d)	(d)	(c)	(a)	(a)	(c)	(a)	(c)

1.3 The General Agreement on Tariffs and Trade (GATT)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(a)	(c)	(d)	(c)	(b)	(c)	(d)	(a)	(a)

1.4 The Uruguay Round and the Establishment of WTO

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(b)	(a)	(d)	(b)	(d)	(a)	(d)	(d)	(a)

1.5 The World Trade Organization (WTO)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(c)	(c)	(c)	(d)	(a)	(c)	(a)	(a)	(b)

1.5.1 The Structure of the WTO

Q.No.	1	2	3	4	5					
Answer	(b)	(c)	(b)	(c)	(a)					

1.5.2 The Guiding Principles of World Trade Organization (WTO)

Q.No.	1	2	3	4	5					
Answer	(b)	(a)	(b)	(c)	(c)					

1.6 The Doha Round

Q.No.	1	2	3	4	5	6	7	8	9	
Answer	(c)	(c)	(c)	(c)	(c)	(b)	(c)	(c)	(c)	

1.7 G 20 Economies: Facilitating Trade

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(c)	(a)	(b)	(b)	(c)	(d)	(b)	(c)	(d)

PAST YEAR QUESTIONS AND ANSWERS

2024 - JUNE

[1] GATT was established in year:
(a) 1945
(b) 1948
(c) 1995
(d) 2014 (1 mark)

Answer:
(b) GATT was established in the year 1948.

[2] Under WTO agreements, the countries cannot normally discriminate between their trading partners. This is referred as:
(a) National treatment (NT)
(b) Most Favoured Nation (MFN)
(c) Promoting fair competition (PFC)
(d) Free trade through negotiation (FTN) (1 mark)

Answer:
(b) Trade without discrimination (OR) Most Favoured Nation (MFN): Under WTO agreements, countries cannot normally discriminate between their trading partners.
The principle of MFN is that if a country grants a special favor or lowers a trade barrier or opens a market, it has to do so for the same goods or services all the WTO members whether those trading partners rich or poor, weak or strong.

[3] Group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries is referred as:
(a) Trading block
(b) Free trade area
(c) Customs union
(d) Economic and monetary union (1 mark)

Answer:
(a) Trading Block: A group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries.
Ex: Arab League, European Free Trade Association (EFTA).

2024 - SEPTEMBER

[1] As of 1st February, 2021, how many Regional Trade Agreements (RTAs) were in force worldwide?
(a) 339 RTAs (b) 239 RTAs
(c) 439 RTAs (d) 539 RTAs (1 mark)

Answer:
(a) 339 RTAs
As of 1st February 2021, there were 339 Regional Trade Agreements (RTAs) in force worldwide, according to the World Trade Organization (WTO).

[2] What does TRIPS stand for?
(a) Trade-Related Aspects of Intellectual Property Rights
(b) Trade-Related Agreements on Investment Policies
(c) Transnational Regulations for International Product Standards
(d) Trade Regulations for International Patent Systems (1 mark)

Answer:
(a) Trade-Related Aspects of Intellectual Property Rights
TRIPS is an international legal agreement under the World Trade Organization (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation.

2025 - JANUARY

[1] With regards to international trade the European Union can be categorised as a ______.

(a) Trading bloc
(b) Free trade area
(c) Bilateral agreements
(d) Customs union (1 mark)

Answer:

(d) Customs union

Explanation:

The European Union (EU) is categorized as a customs union because its member states have eliminated tariffs and other trade barriers among themselves and have adopted a common external tariff on imports from non-member countries. This ensures the free flow of goods within the EU while maintaining a uniform tariff policy for imports.

[2] Which of the following country is not a member of the G20 economies?
(a) Argentina
(b) India
(c) Tunisia
(d) Mexico (1 mark)

Answer:

(c) Tunisia

Explanation:

Tunisia is not a member of the G20 economies. The G20 consists of 19 countries and the European Union, and while Argentina, India, and Mexico are members, Tunisia is not.

2025 - May

[1] Which of these countries is part of the USMCA Agreement ?
(a) Mexico (b) Malta
(c) Malaysia (d) Mongolia (1 mark)

[2] Which one of these is the main reason why GATT lost its relevance by 1980 ?
(a) Efforts at liberalising agricultural trade were successful.
(b) International investments did not expand substantially.
(c) GATT was a treaty.
(d) There were inadequacies in institutional structure and dispute settlement system. (1 mark)

[3] The most controversial topic for Doha Development Agenda was
(a) The Labour Welfare (b) World Peace
(c) Globalization (d) Agriculture Trade (1 mark)

Scanner Preparation Key

Scan & go to "My Books"

Core Concepts

- Define trade negotiations and their importance in international trade.
- Explain the objectives of trade negotiations: market access, tariff reduction, and dispute resolution.
- Highlight the key stages of trade negotiations: preparation, discussion, bargaining, and agreement.
- Discuss the types of trade negotiations: bilateral, multilateral, and regional.
- Introduce the role of trade organizations like the WTO in facilitating negotiations.

Motivational Thoughts

- "Trade negotiations are bridges that connect economies and foster global cooperation."
- "Behind every trade agreement lies the art of effective negotiation."
- "Negotiating trade is not just about economics—it's about partnerships and prosperity."
- "Skilled trade negotiations ensure fairness in a competitive global market."
- "Every successful negotiation is a step toward shared growth and mutual benefit."

Checklist for Learning

- Memorize the key objectives and stages of trade negotiations.
- Understand the difference between bilateral, multilateral, and regional trade talks.
- Learn the role of trade negotiation techniques like compromise and consensus-building.
- Study the factors influencing trade negotiations: political, economic, and cultural.
- Review examples of successful trade negotiations and their outcomes.

Last-Minute Analysis

- Revise the key stages and objectives of trade negotiations with concise notes.
- Memorize examples of successful trade agreements for easy recall.
- Quickly sketch a diagram showing the process of trade negotiations.
- Recall real-world trade negotiation outcomes for exams.
- Solve 2-3 short questions on trade negotiation techniques and outcomes.

Fun Facts

- The Uruguay Round of WTO negotiations lasted almost eight years (1986–1994).
- NAFTA (now USMCA) was one of the most significant trilateral trade agreements in history.
- The first recorded trade agreement dates back to 3000 BCE between Mesopotamian cities.
- The Trans-Pacific Partnership (TPP) was initially signed by 12 countries, showcasing the complexity of multilateral negotiations.
- Some trade negotiations can involve over 100 countries and span several years.

Engaging Activities

- Role-play as representatives of different countries negotiating a trade agreement.
- Group activity: Create a mock trade deal addressing tariffs and market access.
- Debate: Are multilateral trade negotiations more effective than bilateral ones?
- Analyze the negotiation process of a recent trade agreement (e.g., Brexit trade deal).
- Discuss the challenges of reaching consensus in multilateral trade talks.

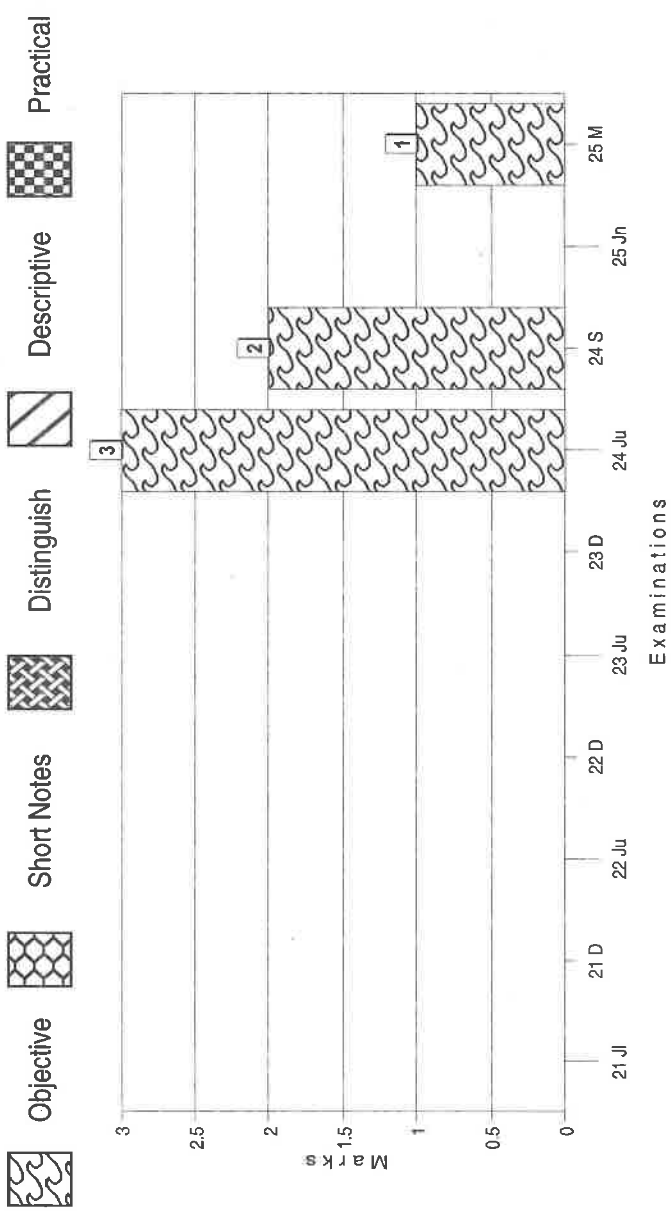
Practical Analysis

- Study the impact of a recent trade agreement on your country's economy.
- Analyze the role of trade negotiations in resolving disputes between two countries.
- Investigate how cultural differences influence trade negotiation strategies.
- Compare the outcomes of bilateral vs. multilateral trade agreements.
- Research the role of international mediators in trade negotiations.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



CHAPTER	INTERNATIONAL TRADE
9.4	**Exchange Rate and Its Economic Effects**

1. The Exchange Rate

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Sep	2				

2. The Exchange Rate Regimes

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Jun	2				

3. Nominal verses Real Exchange Rates

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Jun	1				

4. Changes in Exchange Rates

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Sep	1				

5. Devaluation Vs Depreciation

Attempt	Q. No.	Attempt	Q. No.	Attempt	Q. No.
2024-Jun	3	2025-May	1		

MODEL QUESTIONS

1.1 Introduction

1. What is an exchange rate?
   (a) The rate at which a country exports goods and services
   (b) The rate at which a country imports goods and services
   (c) The rate at which one currency can be exchanged for another currency
   (d) The rate at which a country's central bank sets interest rates
2. How is the exchange rate determined in a floating exchange rate system?
   (a) By the country's central bank through interventions in the foreign exchange market
   (b) By the demand and supply of currencies in the foreign exchange market
   (c) By fixed government policies that peg the exchange rate to a specific value
   (d) By international organizations like the World Bank setting the exchange rate
3. How does a depreciation of a country's currency affect its exports?
   (a) It increases the cost of exports, making them less competitive in foreign markets
   (b) It decreases the cost of exports, making them more competitive in foreign markets
   (c) It has no impact on the cost of exports
   (d) It leads to a complete halt in exports
4. What is the term used to describe a situation where a country deliberately lowers the value of its currency to gain a competitive advantage in international trade?
   (a) Devaluation (b) Revaluation
   (c) Appreciation (d) Stabilization
5. How does an appreciation of a country's currency impact its imports?
   (a) It increases the cost of imports, making them more attractive to domestic consumers
   (b) It decreases the cost of imports, making them less attractive to domestic consumers
   (c) It has no impact on the cost of imports
   (d) It leads to a complete halt in imports
6. The exchange rate is the:
   (a) Rate at which one currency can be exchanged for another currency
   (b) Rate at which a country's central bank lends money to commercial banks
   (c) Rate at which a country's government borrows money from foreign lenders
   (d) Rate at which a country's inflation is calculated
7. An appreciation of a country's currency means that:
   (a) Its exchange rate has decreased, making its exports more expensive
   (b) Its exchange rate has increased, making its exports more expensive
   (c) Its exchange rate has decreased, making its exports more competitive
   (d) Its exchange rate has increased, making its exports more competitive
8. A depreciation of a country's currency means that:
   (a) Its exchange rate has decreased, making its imports more expensive
   (b) Its exchange rate has increased, making its imports more expensive
   (c) Its exchange rate has decreased, making its imports more affordable
   (d) Its exchange rate has increased, making its imports more affordable
9. The impact of a currency appreciation on a country's economy includes:
   (a) Increased export competitiveness and lower import costs
   (b) Reduced export competitiveness and higher import costs

(c) Increased inflation and higher interest rates
(d) Decreased inflation and lower interest rates

10. A flexible exchange rate system is one in which:
(a) The exchange rate is fixed and controlled by the central bank
(b) The exchange rate is determined by market forces of supply and demand
(c) The exchange rate is pegged to a specific commodity such as gold
(d) The exchange rate is determined by a committee of international economists

1.2 The Exchange Rate

1. In a floating exchange rate system, how is the exchange rate determined?
(a) It is fixed by the government to stabilize international trade
(b) It is determined by supply and demand in the foreign exchange market
(c) It is pegged to a specific commodity, such as gold
(d) It is set unilaterally by each country's central bank

2. What does an appreciation of a country's currency mean?
(a) The currency has increased in value relative to other currencies
(b) The currency has decreased in value relative to other currencies
(c) The country's central bank has intervened to stabilize the exchange rate
(d) The country is experiencing high inflation rates

3. How does an appreciation of a country's currency affect its exports?
(a) Exports increase because foreign goods become cheaper for domestic consumers
(b) Exports decrease because domestic goods become more expensive for foreign consumers
(c) Exports remain unchanged as the appreciation has no effect on trade
(d) Exports increase because domestic goods become more expensive for domestic consumers

4. What is a trade deficit?
(a) When a country's exports exceed its imports
(b) When a country's imports exceed its exports
(c) When a country has a fixed exchange rate regime
(d) When a country's inflation rate is higher than that of its trading partners

5. The exchange rate is the price of one currency expressed in terms of another currency. It tells us:
(a) The inflation rate of a country
(b) The interest rate set by the central bank
(c) The rate at which goods are exchanged in international trade
(d) The rate at which one currency can be exchanged for another currency

6. A fixed exchange rate system is one in which:
(a) The exchange rate fluctuates freely based on market forces
(b) The exchange rate is determined by a committee of international economists
(c) The exchange rate is pegged or fixed relative to a specific currency or a basket of currencies
(d) The exchange rate is set by the World Trade Organization (WTO)

7. In a floating exchange rate system:
(a) The exchange rate is fixed and does not change over time
(b) The exchange rate is determined by supply and demand in the foreign exchange market
(c) The exchange rate is determined by government authorities and central banks
(d) The exchange rate is the same for all countries

8. The exchange rate between two currencies can be influenced by factors such as:
(a) The weather conditions in each country
(b) The political stability of the countries
(c) The population size of each country
(d) The interest rate differentials and economic performance of the countries

9. If the exchange rate between the US dollar (USD) and the Euro (EUR) is 1 USD = 0.85 EUR, how many Euros would you get for 100 US dollars?
   (a) 85 EUR (b) 115 EUR
   (c) 100 EUR (d) 120 EUR

1.3 The Exchange Rate Regimes

1. What is an exchange rate regime?
   (a) The rate at which a country's central bank lends money to commercial banks
   (b) The rate at which one country's currency can be exchanged for another country's currency
   (c) The framework adopted by a country to determine the value of its currency in relation to other currencies
   (d) The rate at which a country's central bank buys and sells government securities
2. In a fixed exchange rate regime, the exchange rate is:
   (a) Determined by supply and demand in the foreign exchange market
   (b) Set by the country's central bank and remains constant
   (c) Free to fluctuate based on market forces
   (d) Linked to the price of gold or another commodity
3. Which exchange rate regime allows the exchange rate to be determined by market forces without significant intervention from the central bank?
   (a) Fixed exchange rate regime
   (b) Flexible exchange rate regime
   (c) Crawling peg exchange rate regime
   (d) Currency board arrangement
4. What is a crawling peg exchange rate regime?
   (a) An exchange rate regime where the currency is pegged to the price of gold
   (b) An exchange rate regime where the central bank intervenes heavily to maintain a fixed rate

   (c) An exchange rate regime where the exchange rate is adjusted gradually over time based on certain indicators
   (d) An exchange rate regime where the currency is freely floated and determined by market forces
5. Which of the following is an example of a fixed exchange rate regime?
   (a) Floating exchange rate system
   (b) Managed float exchange rate system
   (c) Currency board arrangement
   (d) Target exchange rate system
6. An exchange rate regime refers to:
   (a) The rate at which one currency can be exchanged for another currency
   (b) The system or framework used by a country to determine its exchange rate policy
   (c) The process of converting one currency into another for international trade
   (d) The rate at which a country's central bank lends money to commercial banks
7. In a fixed exchange rate regime, the exchange rate is:
   (a) Determined by market forces of supply and demand
   (b) Allowed to fluctuate freely without intervention
   (c) Pegged or fixed relative to a specific currency or a basket of currencies
   (d) Determined by a committee of international economists
8. Under a floating exchange rate regime, the exchange rate is primarily determined by:
   (a) Market forces of supply and demand in the foreign exchange market
   (b) Government authorities and central banks
   (c) The World Trade Organization (WTO)
   (d) A fixed formula set by the International Monetary Fund (IMF)
9. A managed or dirty float exchange rate regime is characterized by:
   (a) Frequent and significant fluctuations in the exchange rate
   (b) A completely fixed exchange rate that does not change over time
   (c) Minimal government intervention in the foreign exchange market
   (d) Frequent government intervention to influence the exchange rate without fully fixing it

10. A currency board system is a type of exchange rate regime where:
    (a) The central bank completely controls and manages the exchange rate
    (b) The exchange rate is determined by a committee of international economists
    (c) The central bank pegs the domestic currency to a foreign currency at a fixed rate
    (d) The exchange rate is allowed to fluctuate freely based on market forces

Managed Float Systems

1. What is a managed float exchange rate system?
    (a) A system where the exchange rate is determined solely by market forces
    (b) A system where the exchange rate is fixed to a specific commodity, such as gold
    (c) A system where the central bank intervenes in the foreign exchange market to influence the exchange rate
    (d) A system where the exchange rate is pegged to a basket of currencies
2. What is the primary reason for central bank intervention in a managed float system?
    (a) To fix the exchange rate to a specific value
    (b) To maintain a completely flexible and market-determined exchange rate
    (c) To accumulate foreign exchange reserves for investment purposes
    (d) To stabilize the exchange rate and avoid abrupt fluctuations
3. How does a central bank influence the exchange rate in a managed float system?
    (a) By implementing capital controls to restrict currency flows
    (b) By buying or selling foreign currencies in the foreign exchange market
    (c) By fixing interest rates at a specific level
    (d) By imposing tariffs and quotas on imported goods

4. Which of the following best describes the flexibility of exchange rates in a managed float system?
    (a) The exchange rate is completely fixed and unchanged over time
    (b) The exchange rate is determined solely by market forces with no central bank intervention
    (c) The exchange rate is adjusted periodically based on market conditions and central bank interventions
    (d) The exchange rate is pegged to a specific value against another currency
5. What is an advantage of a managed float system compared to a fixed exchange rate system?
    (a) It provides more exchange rate stability
    (b) It eliminates the need for foreign exchange reserves
    (c) It allows the central bank to fully control the exchange rate
    (d) It promotes currency speculations in the foreign exchange market

Fixed Exchange Rates

1. What is a fixed exchange rate system?
    (a) A system where the exchange rate is determined solely by market forces
    (b) A system where the exchange rate is fixed and maintained at a specific value by the central bank
    (c) A system where the exchange rate is determined by a basket of currencies
    (d) A system where the exchange rate is allowed to fluctuate within a specified band
2. What is the primary advantage of a fixed exchange rate system?
    (a) Exchange rate stability, reducing uncertainty for international trade and investments
    (b) Flexibility in adjusting the exchange rate based on market conditions
    (c) Full control of the exchange rate by market forces
    (d) Ability to accumulate foreign exchange reserves easily

3. How does a central bank maintain a fixed exchange rate?
   (a) By allowing the exchange rate to fluctuate based on market conditions
   (b) By buying or selling foreign currencies in the foreign exchange market to balance supply and demand
   (c) By imposing capital controls to restrict currency flows
   (d) By pegging the exchange rate to a basket of goods and services
4. Which of the following is a disadvantage of a fixed exchange rate system?
   (a) Exchange rate stability, reducing uncertainty for businesses and investors
   (b) Limited ability to adjust to changing economic conditions
   (c) Elimination of currency speculation in the foreign exchange market
   (d) Enhanced ability to pursue independent monetary policies
5. What happens if there is an imbalance in the supply and demand of a currency in a fixed exchange rate system?
   (a) The central bank adjusts the fixed exchange rate to balance the market
   (b) The central bank allows the exchange rate to fluctuate freely
   (c) The central bank intervenes in the foreign exchange market to buy or sell currencies
   (d) The exchange rate becomes flexible and market-determined

1.4 Nominal Versus REAL Exchange Rates

1. What is a nominal exchange rate?
   (a) The rate at which one country's currency can be exchanged for another country's currency
   (b) The rate at which the central bank buys and sells government securities
   (c) The rate at which a country's central bank lends money to commercial banks
   (d) The rate at which the inflation rate is changing over time
2. How is the nominal exchange rate expressed?
   (a) In terms of the price level of goods and services in each country
   (b) In terms of the interest rate differential between two countries
   (c) In terms of the purchasing power of each country's currency
   (d) In terms of the number of units of foreign currency per unit of domestic currency
3. What is a real exchange rate?
   (a) The rate at which the central bank intervenes in the foreign exchange market
   (b) The rate at which a country's central bank sets interest rates
   (c) The rate at which the inflation rate is changing over time
   (d) The rate at which the relative price level of goods and services between two countries is changing over time
4. What does it mean when the real exchange rate is greater than one?
   (a) The domestic currency is overvalued relative to foreign currencies
   (b) The domestic currency is undervalued relative to foreign currencies
   (c) The nominal exchange rate is increasing rapidly
   (d) The country is experiencing high inflation rates
5. How is the real exchange rate calculated?
   (a) By dividing the nominal exchange rate by the inflation rate in the domestic country
   (b) By dividing the inflation rate in the domestic country by the inflation rate in the foreign country
   (c) By multiplying the nominal exchange rate by the ratio of prices between 2 countries
   (d) By adding the inflation rates in the domestic and foreign countries
6. The nominal exchange rate is the:
   (a) Rate at which one currency can be exchanged for another currency in the foreign exchange market
   (b) Rate at which a country's central bank lends money to commercial banks
   (c) Rate at which a country's inflation is calculated
   (d) Rate at which goods are exchanged in international trade
7. The real exchange rate is the nominal exchange rate adjusted for:
   (a) Interest rate differentials between countries
   (b) Inflation differentials between countries
   (c) Differences in the GDP of countries
   (d) Differences in the unemployment rates of countries

8. The real exchange rate reflects the relative purchasing power of currencies and provides information about:
   (a) The interest rate set by the central bank
   (b) The GDP growth rate of a country
   (c) The rate of inflation in a country
   (d) The relative price levels between countries
9. If the nominal exchange rate between the US dollar (US(D) and the Euro (EUR) is 1 USD = 0.85 EUR, and the inflation rate in the US is 2% while the inflation rate in the Eurozone is 1%, which of the following represents the real exchange rate between USD and EUR?
   (a) 0.85 EUR (b) 0.8345 EUR
   (c) 0.8685 EUR (d) 0.87 EUR
10. An increase in a country's inflation rate compared to its trading partners will likely lead to:
   (a) An appreciation of its nominal exchange rate
   (b) A depreciation of its nominal exchange rate
   (c) No change in its nominal exchange rate
   (d) A fixed exchange rate with no fluctuations

1.5 The Foreign Exchange Market

1. What is the foreign exchange market?
   (a) A market where foreign goods and services are traded
   (b) A market where foreign currencies are bought and sold
   (c) A market where foreign direct investment (FDI) takes place
   (d) A market where commodities are exchanged between countries
2. Which of the following participants plays the most significant role in the foreign exchange market?
   (a) Governments and central banks
   (b) Multinational corporations
   (c) Individual retail traders
   (d) Stock exchanges
3. What is the primary purpose of the foreign exchange market?
   (a) To facilitate international trade and investment
   (b) To determine interest rates in the domestic economy
   (c) To control inflation rates in the domestic economy
   (d) To regulate capital flows between countries
4. How is the foreign exchange rate determined in the foreign exchange market?
   (a) It is fixed by the International Monetary Fund (IMF)
   (b) It is determined by supply and demand for currencies in the market
   (c) It is set by a group of leading central banks
   (d) It is determined based on the gold standard
5. Who are the primary participants in the foreign exchange market?
   (a) Governments and central banks
   (b) Domestic and foreign banks
   (c) Foreign investors only
   (d) Exporters and importers
6. The foreign exchange market is a decentralized global market where currencies are traded. Which of the following participants is the most active in the foreign exchange market?
   (a) Governments and central banks
   (b) Commercial banks
   (c) Multinational corporations
   (d) Individual retail traders
7. The foreign exchange market operates 24 hours a day, five days a week, due to:
   (a) The need for constant access to currency conversion services for travelers
   (b) The continuous trading sessions in different time zones around the world
   (c) The influence of international organizations like the World Bank
   (d) Government regulations that require round-the-clock trading
8. The primary financial centers for foreign exchange trading include all of the following cities except:
   (a) New York
   (b) London
   (c) Tokyo
   (d) Paris

9. The most commonly traded currency pair in the foreign exchange market is:
   (a) USD/EUR (US Dollar/Euro)
   (b) USD/JPY (US Dollar/Japanese Yen)
   (c) GBP/USD (British Pound/US Dollar)
   (d) EUR/JPY (Euro/Japanese Yen)
10. The foreign exchange market facilitates currency trading for various purposes, including:
   (a) Speculation on short-term price movements
   (b) Foreign direct investment (FDI)
   (c) Trading of commodities like gold and silver
   (d) International monetary policy coordination

1.6 Determination of Nominal Exchange Rate

1. What is the nominal exchange rate?
   (a) The rate at which goods and services are traded between two countries
   (b) The rate at which one currency can be exchanged for another currency in the foreign exchange market
   (c) The rate at which a country's central bank sets interest rates
   (d) The rate at which a country's central bank lends money to commercial banks
2. Which of the following factors can influence the nominal exchange rate in the short term?
   (a) Relative inflation rates between two countries
   (b) Relative interest rates between two countries
   (c) Trade balances between two countries
   (d) All of the above
3. According to the purchasing power parity (PPP) theory, what will happen to the nominal exchange rate if the inflation rate is higher in one country compared to another?
   (a) The nominal exchange rate will appreciate in the country with higher inflation
   (b) The nominal exchange rate will depreciate in the country with higher inflation

   (c) The nominal exchange rate will remain unchanged
   (d) The nominal exchange rate will be determined by relative interest rates instead
4. What role do central banks play in influencing the nominal exchange rate?
   (a) Central banks do not have any influence over the nominal exchange rate
   (b) Central banks can directly set the nominal exchange rate
   (c) Central banks can intervene in the foreign exchange market to influence the nominal exchange rate
   (d) Central banks can only influence the real exchange rate, not the nominal exchange rate
5. What is the primary factor that determines the long-term trend of the nominal exchange rate?
   (a) Relative interest rates between two countries
   (b) Relative inflation rates between two countries
   (c) Trade balances between two countries
   (d) Market speculation and investor sentiment
6. The nominal exchange rate is determined in the foreign exchange market by the interaction of:
   (a) Central banks and governments of different countries
   (b) Commercial banks and multinational corporations
   (c) Supply and demand for currencies
   (d) The World Trade Organization (WTO) and the International Monetary Fund (IMF)
7. An increase in the demand for a country's currency in the foreign exchange market will likely lead to:
   (a) A depreciation of its currency's exchange rate
   (b) An appreciation of its currency's exchange rate
   (c) No change in its currency's exchange rate
   (d) A fixed exchange rate with no fluctuations
8. Factors that can influence the demand for a currency in the foreign exchange market include:
   (a) Interest rate differentials between countries
   (b) Differences in GDP growth rates between countries
   (c) Political stability and economic performance of countries
   (d) All of the above

9. In a flexible exchange rate system, if a country experiences an increase in its trade deficit, the likely impact on its currency's exchange rate will be:
   (a) An appreciation of the currency
   (b) A depreciation of the currency
   (c) No change in the currency's exchange rate
   (d) A fixed exchange rate with no fluctuations
10. The nominal exchange rate can be influenced by various speculative activities in the foreign exchange market. This type of trading is often driven by expectations of:
   (a) Central bank interventions
   (b) Future inflation rates in the country
   (c) Political events and economic indicators
   (d) A fixed exchange rate system

1.7 Changes in Exchange Rates

1. What causes changes in exchange rates in a floating exchange rate system?
   (a) Changes in interest rates only
   (b) Changes in inflation rates only
   (c) Changes in demand and supply of currencies
   (d) Changes in government regulations on trade
2. How does an increase in demand for a currency affect its exchange rate?
   (a) The exchange rate depreciates
   (b) The exchange rate appreciates
   (c) The exchange rate remains unchanged
   (d) The exchange rate fluctuates wildly
3. If the U.S. dollar depreciates against the euro, how will this impact U.S. exports to the Eurozone?
   (a) U.S. exports will increase as they become cheaper for Eurozone consumers
   (b) U.S. exports will decrease as they become more expensive for Eurozone consumers

   (c) U.S. exports will remain unchanged as exchange rate changes have no effect on trade
   (d) U.S. exports will decrease due to higher inflation in the Eurozone
4. What is the impact of an increase in interest rates in a country on its exchange rate?
   (a) The exchange rate appreciates
   (b) The exchange rate depreciates
   (c) The exchange rate remains unchanged
   (d) The impact on the exchange rate cannot be determined from the information given
5. How does political stability in a country affect its exchange rate?
   (a) Political stability has no impact on the exchange rate
   (b) Political stability leads to a depreciation of the domestic currency
   (c) Political stability leads to an appreciation of the domestic currency
   (d) Political stability leads to fluctuations in the exchange rate
6. A currency's exchange rate can change due to various factors. Which of the following is NOT a factor that can influence changes in exchange rates?
   (a) Interest rate differentials between countries
   (b) Political stability and economic performance of countries
   (c) The World Trade Organization (WTO) regulations
   (d) Speculative activities in the foreign exchange market
7. In a flexible exchange rate system, an increase in the demand for a country's goods and services in international markets is likely to result in:
   (a) An appreciation of the country's currency
   (b) A depreciation of the country's currency
   (c) No change in the country's currency value
   (d) A fixed exchange rate with no fluctuations
8. Changes in exchange rates can have various effects on a country's economy. An appreciation of the domestic currency can benefit the economy by:
   (a) Making imports cheaper and boosting domestic consumption
   (b) Making exports more expensive and reducing trade competitiveness

(c) Encouraging foreign direct investment (FDI) from other countries
(d) Reducing interest rates and stimulating investment and borrowing

9. If a country's currency depreciates significantly, it may lead to a potential risk of:
(a) Lower inflation and increased purchasing power for consumers
(b) Capital flight and loss of foreign investor confidence
(c) Trade surplus and increased exports
(d) Lower interest rates and increased investment

10. A sudden and significant change in exchange rates caused by unexpected economic or political events is known as:
(a) A currency board system
(b) Exchange rate volatility
(c) A fixed exchange rate regime
(d) Purchasing power parity (PPP)

1.8 Devaluation (Revaluation) Vs Depreciation (Appreciation)

1. What is devaluation of a currency?
(a) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system
(b) An increase in the value of a currency relative to other currencies under a floating exchange rate system
(c) A decrease in the value of a currency relative to other currencies under a floating exchange rate system
(d) An increase in the value of a currency relative to other currencies under a fixed exchange rate system

2. What is revaluation of a currency?
(a) A decrease in the value of a currency relative to other currencies under a floating exchange rate system
(b) An increase in the value of a currency relative to other currencies under a fixed exchange rate system
(c) An increase in the value of a currency relative to other currencies under a floating exchange rate system
(d) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system

3. What is depreciation of a currency?
(a) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system
(b) An increase in the value of a currency relative to other currencies under a floating exchange rate system
(c) A decrease in the value of a currency relative to other currencies under a floating exchange rate system
(d) An increase in the value of a currency relative to other currencies under a fixed exchange rate system

4. What is appreciation of a currency?
(a) A decrease in the value of a currency relative to other currencies under a floating exchange rate system
(b) An increase in the value of a currency relative to other currencies under a fixed exchange rate system
(c) An increase in the value of a currency relative to other currencies under a floating exchange rate system
(d) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system

5. Which of the following is typically used as a policy measure to devalue or revalue a currency?
(a) Changing interest rates
(b) Buying or selling foreign currencies in the foreign exchange market
(c) Implementing capital controls
(d) Imposing tariffs on imports

6. Devaluation and revaluation refer to changes in the exchange rate set by:
(a) Commercial banks in the foreign exchange market
(b) Market forces of supply and demand
(c) Government authorities and central banks
(d) The International Monetary Fund (IMF)

7. Devaluation of a currency is a deliberate decision by a country's central bank to:
(a) Increase the value of its currency in the foreign exchange market
(b) Lower the value of its currency in the foreign exchange market

(c) Peg its currency to a foreign currency at a fixed rate
(d) Allow its currency to float freely without intervention

8. Revaluation of a currency is a deliberate decision by a country's central bank to:
(a) Increase the value of its currency in the foreign exchange market
(b) Lower the value of its currency in the foreign exchange market
(c) Peg its currency to a foreign currency at a fixed rate
(d) Allow its currency to float freely without intervention

9. Depreciation of a currency is a change in the exchange rate that occurs due to:
(a) Market forces of supply and demand in the foreign exchange market
(b) Frequent government interventions in the foreign exchange market
(c) Fixed exchange rate systems implemented by central banks
(d) The World Trade Organization (WTO) regulations

10. Appreciation of a currency is a change in the exchange rate that occurs due to:
(a) Market forces of supply and demand in the foreign exchange market
(b) Frequent government interventions in the foreign exchange market
(c) Fixed exchange rate systems implemented by central banks
(d) The World Trade Organization (WTO) regulations

1.9 Impacts of Exchange Rate Fluctuations on Domestic Economy

1. How does currency depreciation impact a country's exports?
(a) It makes exports more expensive for foreign buyers, reducing export competitiveness
(b) It makes exports cheaper for foreign buyers, increasing export competitiveness
(c) It has no impact on exports
(d) It only impacts the quantity of exports, not the price

2. What effect does currency appreciation have on a country's imports?
(a) It makes imports more expensive, reducing import volumes
(b) It makes imports cheaper, increasing import volumes
(c) It has no impact on imports
(d) It only impacts the quantity of imports, not the price

3. How does a weaker domestic currency (depreciation) affect inflation in the country?
(a) It leads to higher inflation due to increased import costs
(b) It leads to lower inflation due to reduced import costs
(c) It has no impact on inflation
(d) It only impacts inflation in the long term, not the short term

4. How does exchange rate volatility impact foreign direct investment (FDI)?
(a) It encourages FDI by reducing uncertainty for investors
(b) It discourages FDI due to increased risk and uncertainty
(c) It has no impact on FDI
(d) It only affects FDI from certain countries, not all investors

5. What is the impact of exchange rate fluctuations on a country's balance of trade (trade balance)?
(a) It has no impact on the trade balance
(b) It always leads to a trade surplus
(c) It always leads to a trade deficit
(d) It can lead to either a trade surplus or a trade deficit depending on other factors

6. A depreciation of the domestic currency can have a positive impact on the domestic economy by:
(a) Making imports cheaper and stimulating domestic consumption
(b) Making exports more expensive and reducing trade competitiveness
(c) Encouraging foreign direct investment (FDI) from other countries
(d) Reducing interest rates and stimulating investment and borrowing

7. An appreciation of the domestic currency can negatively affect the domestic economy by:
(a) Making imports more expensive and reducing domestic consumption
(b) Making exports cheaper and boosting trade competitiveness

(c) Attracting more foreign direct investment (FDI) to the country
(d) Increasing interest rates and reducing investment and borrowing

8. Exchange rate fluctuations can impact inflation in the domestic economy. A depreciation of the domestic currency is likely to result in:
(a) Higher inflation, as imported goods become more expensive
(b) Lower inflation, as imported goods become more affordable
(c) No impact on inflation, as exchange rates do not affect prices
(d) A fixed exchange rate with no fluctuations

9. A depreciation of the domestic currency can benefit domestic producers by:
(a) Increasing the cost of imported raw materials and inputs
(b) Making domestic goods more expensive for foreign buyers
(c) Reducing the competitiveness of domestic goods in foreign markets
(d) Encouraging imports and discouraging domestic production

10. The impact of exchange rate fluctuations on the domestic economy can vary depending on the country's level of economic openness. In a highly open economy, exchange rate fluctuations are likely to have a more significant impact on:
(a) Government spending and fiscal policy
(b) Unemployment and labor market conditions
(c) International trade and export-import dynamics
(d) Interest rates and monetary policy decisions

ANSWER

1.1 Introduction

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(b)	(b)	(a)	(a)	(a)	(b)	(c)	(b)	(b)

1.2 The Exchange Rate

Q.No.	1	2	3	4	5	6	7	8	9	
Answer	(b)	(a)	(b)	(b)	(d)	(c)	(b)	(d)	(b)	

1.3 The Exchange Rate Regimes

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(b)	(b)	(c)	(c)	(b)	(c)	(a)	(d)	(c)

Managed Float System

Q.No.	1	2	3	4	5					
Answer	(c)	(d)	(b)	(c)	(a)					

Fixed Exchange Rates

Q.No.	1	2	3	4	5					
Answer	(b)	(a)	(b)	(b)	(c)					

1.4 Nominal Versus REAL Exchange Rates

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(d)	(d)	(a)	(c)	(a)	(b)	(d)	(c)	(b)

1.5 The Foreign Exchange Market

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(b)	(a)	(a)	(b)	(b)	(b)	(b)	(d)	(b)	(a)

1.6 Determination of Nominal Exchange Rate

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(b)	(d)	(b)	(c)	(b)	(c)	(b)	(d)	(a)	(c)

1.7 Changes in Exchange Rates

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(b)	(a)	(a)	(c)	(c)	(a)	(b)	(b)	(b)

1.8 Devaluation (Revaluation) Vs Depreciation (Appreciation)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(b)	(c)	(c)	(b)	(c)	(b)	(a)	(a)	(a)

1.9 Impacts of Exchange Rate Fluctuations on Domestic Economy

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(b)	(b)	(a)	(b)	(d)	(a)	(a)	(a)	(b)	(c)

PAST YEAR QUESTIONS AND ANSWERS

2024 - JUNE

[1] An increase in Real effective exchange rate indicates:
(a) A loss in trade competitiveness
(b) An increase in trade competitiveness
(c) Exports become more cheaper
(d) Imports become more costlier (1 mark)

Answer:
(a) An increase in REER implies that exports become more expensive and imports become cheaper and indicates a loss in trade competitiveness.

[2] No. of units of foreign currency can be exchanged for one unit of local currency is referred to as:
(a) Direct Quote (b) Indirect Quote
(c) European currency (d) Cross rates (1 mark)

Answer:
(b) An indirect quote or American currency quotation: It is the number of units of a foreign currency exchangeable for one unit of local currency. Ex: $0.012 per rupee.

[3] What is the impact of a depreciation of a country's currency on its exports?
(a) Exports decrease because foreign goods become cheaper for domestic consumers
(b) Exports increase because domestic goods become cheaper for foreign consumers
(c) Exports remain unchanged as the depreciation has no effect on trade
(d) Exports increase because foreign goods become more expensive for domestic consumers (1 mark)

Answer:
(b) Exports increase because domestic goods become cheaper for foreign consumers.
A depreciation of a country's currency makes its goods & services relatively cheaper for foreign consumers, leading to increases in exports.

2024 - SEPTEMBER

[1] Suppose the exchange rate between INR and EUR changes from 1 EUR = 80 INR to 1 EUR = 85 INR. What can be said about the change in the value of the INR relative terms to the EUR?
(a) INR has depreciated against the EUR.
(b) INR has appreciated against EUR.
(c) EUR has no effect against INR.
(d) EUR has depreciated against INR. (1 mark)

Answer:
(a) INR has depreciated against the EUR.
If the exchange rate changes from 1 EUR = 80 INR to 1 EUR = 85

INR, it now takes more Indian Rupees (INR) to buy 1 Euro (EUR). This indicates that the INR has lost value, or depreciated, against the EUR.

[2] What term is used for the rate between currencies Y and Z, which is derived from the given rates of another set of two pairs of currency (say, X and Y, and X and Z)?

(a) Ask rate
(b) Bid rate
(c) Spot rate
(d) Cross rate (1 mark)

Answer:

(d) Cross rate

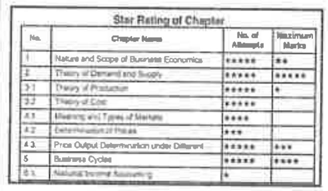
A cross rate is the exchange rate between two currencies derived from the exchange rates of those currencies with a third currency.

2025 - May

[1] An appreciation of currency or strong currency makes the domestic currency more ________ therefore it can be exchanged for a ________ amount of foreign currency.

(a) Weaker, smaller
(b) Valuable, larger
(c) Weaker, larger
(d) Valuable, smaller (1 mark)

Smart Study with Scanner



No.	Chapter Name	No. of Attempts	Maximum Marks
1	Nature and Scope of Business Economics	★★★★★	★★
2	Theory of Demand and Supply	★★★★★	★★★★★
3.1	Theory of Production	★★★★★	★
3.2	Theory of Cost	★★★★★	
4.1	Meaning and Types of Markets	★★★★	
4.2	Determination of Prices	★★★	
4.3	Price Output Determination under Different	★★★★★	★★★
5	Business Cycles	★★★★★	★★★★
6.1	National Income Accounting	★	

Star Rating Chapter

- At page no. { **xii** }
- Highlights chapter-wise importance based on historical exam trends
- Uses star ratings (★ to ★★★★★) to indicate weightage and priority
- Visual reference to quickly identify scoring chapters

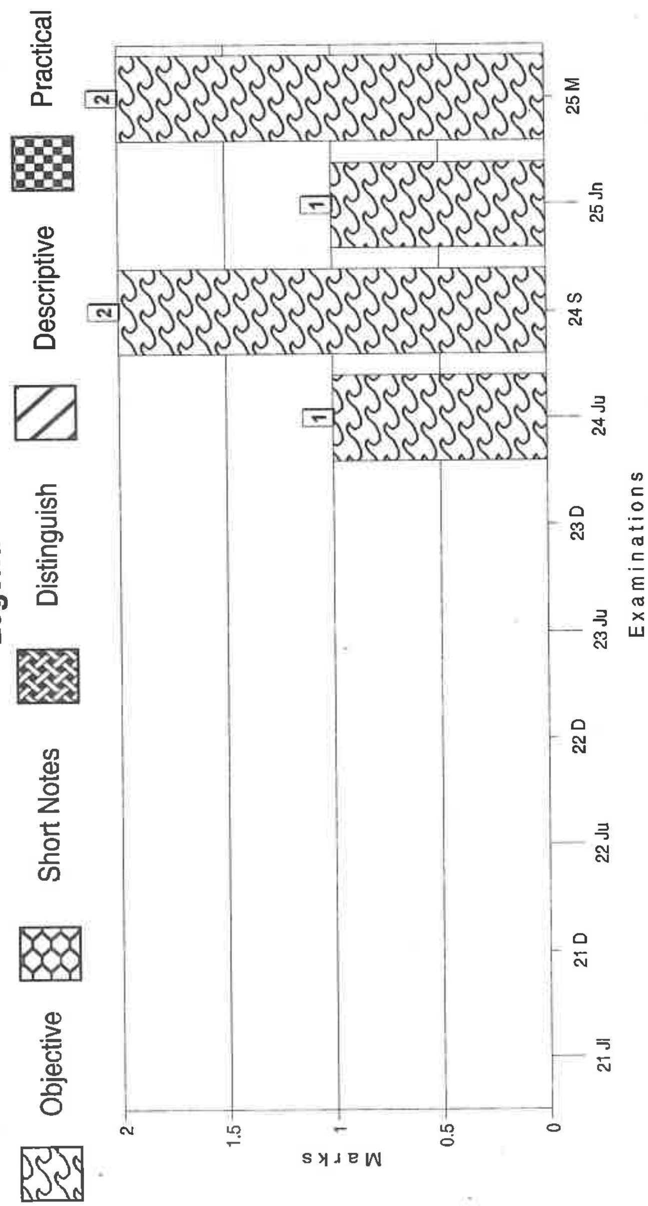
Core Concepts

- Define exchange rate and its importance in international trade.
- Explain the types of exchange rates: fixed, floating, and managed.
- Discuss the factors influencing exchange rates: inflation, interest rates, political stability, and speculation.
- Highlight the impact of exchange rate fluctuations on imports, exports, and economic growth.
- Introduce the concept of currency depreciation and appreciation.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



CHAPTER	INTERNATIONAL TRADE
9.5	**International Capital Movements**

1. Foreign Direct Investment (FDI)					
Attempt	**Q. No.**	**Attempt**	**Q. No.**	**Attempt**	**Q. No.**
2019-May	1	2024-Jun	1	2024-Sep	2
2025-Jan	1	2025-May	1	2025-May	2

2. Foreign Portfolio Investment (FPI)					
Attempt	**Q. No.**	**Attempt**	**Q. No.**	**Attempt**	**Q. No.**
2024-Sep	1				

MODEL QUESTIONS

1.1 Introduction

1. What are international capital movements?
   (a) Movements of goods and services between countries
   (b) Movements of people between countries for employment purposes
   (c) Movements of financial assets and liabilities between countries
   (d) Movements of foreign aid and grants between countries
2. Which of the following is an example of a capital inflow?
   (a) A country exporting goods to another country
   (b) A country receiving foreign direct investments (FDI) from abroad
   (c) A country borrowing money from an international organization
   (d) A country granting foreign aid to another country

3. What is the primary motivation behind international capital movements?
   (a) To promote international trade and exchange of goods
   (b) To facilitate foreign aid and humanitarian assistance
   (c) To earn profits and achieve higher returns on investments
   (d) To strengthen diplomatic relations between countries
4. How do capital movements impact exchange rates?
   (a) Capital movements have no impact on exchange rates
   (b) Capital inflows lead to currency appreciation, and capital outflows lead to currency depreciation
   (c) Capital inflows lead to currency depreciation, and capital outflows lead to currency appreciation
   (d) Capital movements cause exchange rates to fluctuate randomly
5. What is the role of capital controls in managing international capital movements?
   (a) Capital controls encourage free and unrestricted capital movements between countries
   (b) Capital controls limit the flow of financial assets between countries
   (c) Capital controls only apply to foreign direct investments (FDI) and not to portfolio investments
   (d) Capital controls are only implemented during financial crises
6. International capital movements refer to the:
   (a) Flow of goods and services between countries
   (b) Transfer of technology and knowledge across borders
   (c) Movement of financial assets and investments between countries
   (d) Exchange of currencies in the foreign exchange market
7. Foreign Direct Investment (FDI) involves:
   (a) Short-term speculative investments in financial markets
   (b) Acquiring a significant ownership stake in a foreign company
   (c) Exporting goods and services to foreign markets
   (d) Purchasing foreign currency for investment purposes
8. Portfolio investment includes:
   (a) Long-term investments in real estate and infrastructure projects
   (b) Investments in a variety of financial assets like stocks and bonds in foreign markets
   (c) Direct investments in foreign businesses to control their operations
   (d) Currency trading for speculative purposes

9. Capital flight refers to:
   (a) The movement of financial capital from one country to another for investment purposes
   (b) The sudden influx of foreign investment into a country's stock market
   (c) The mass migration of skilled labor to other countries for better opportunities
   (d) The rapid depreciation of a country's currency in the foreign exchange market
10. The International Monetary Fund (IMF) plays a role in:
   (a) Regulating international trade and setting tariff rates
   (b) Facilitating foreign direct investment between countries
   (c) Providing financial assistance to countries facing balance of payments crises
   (d) Setting interest rates in the global financial markets

1.2 Types of Foreign Capital

1. What is Foreign Direct Investment (FDI)?
   (a) Investment in foreign financial markets by domestic investors
   (b) Investment in domestic financial markets by foreign investors
   (c) Investment in a foreign company to gain significant ownership and control
   (d) Investment in foreign currencies for speculative purposes
2. What is Portfolio Investment?
   (a) Investment in a foreign company to gain significant ownership and control
   (b) Investment in foreign financial markets by domestic investors
   (c) Investment in domestic financial markets by foreign investors
   (d) Investment in foreign currencies for speculative purposes
3. What is Foreign Institutional Investment (FII)?
   (a) Investment by domestic institutions in foreign companies
   (b) Investment by foreign institutions in domestic companies
   (c) Investment in a foreign company to gain significant ownership and control
   (d) Investment in foreign currencies for speculative purposes

4. What is Foreign Portfolio Investment (FPI)?
   (a) Investment in foreign financial markets by domestic investors
   (b) Investment by domestic institutions in foreign companies
   (c) Investment in a foreign company to gain significant ownership and control
   (d) Investment in foreign currencies for speculative purposes
5. What is Foreign Aid?
   (a) Investment in foreign financial markets by domestic investors
   (b) Investment by foreign institutions in domestic companies
   (c) Financial assistance provided by one country to another for development projects
   (d) Investment in foreign currencies for speculative purposes
6. Foreign Direct Investment (FDI) involves:
   (a) Short-term speculative investments in financial markets
   (b) Acquiring a significant ownership stake in a foreign company
   (c) Exporting goods and services to foreign markets
   (d) Purchasing foreign currency for investment purposes
7. Portfolio investment includes:
   (a) Long-term investments in real estate and infrastructure projects
   (b) Investments in a variety of financial assets like stocks and bonds in foreign markets
   (c) Direct investments in foreign businesses to control their operations
   (d) Currency trading for speculative purposes
8. Foreign Institutional Investment (FII) refers to:
   (a) Investments made by foreign governments in domestic companies
   (b) Investments made by multinational corporations in foreign subsidiaries
   (c) Investments made by foreign institutional investors like mutual funds in the domestic financial markets
   (d) Investments made by domestic investors in foreign financial markets
9. Official Development Assistance (ODA) is a type of foreign capital provided by:
   (a) Multinational corporations to support their global expansion
   (b) International organizations like the World Bank to fund infrastructure projects in developing countries

   (c) Foreign governments to promote investment in specific sectors of their economy
   (d) Individual investors looking for diversification in foreign markets
10. Remittances from overseas workers are an example of:
   (a) FDI inflows from foreign companies establishing subsidiaries in a country
   (b) Portfolio investment by foreign investors in the domestic stock market
   (c) Foreign aid provided by international organizations to support social development
   (d) Foreign capital inflows from individuals sending money back to their home country

1.3 Foreign Direct Investment (FDI)

1. What is Foreign Direct Investment (FDI)?
   (a) Investment made by foreign individuals in the domestic stock market
   (b) Investment in foreign stocks and bonds through mutual funds
   (c) Investment in a foreign country to establish or acquire businesses or assets
   (d) Investment in short-term money market instruments in foreign markets
2. What distinguishes Foreign Direct Investment (FDI) from Foreign Portfolio Investment (FPI)?
   (a) FDI involves investing in a diverse portfolio of foreign stocks and bonds.
   (b) FDI involves short-term investments in foreign money market instruments.
   (c) FDI involves acquiring significant ownership in foreign companies or assets.
   (d) FDI involves lending money to foreign governments.

3. Which of the following is an example of Foreign Direct Investment (FDI)?
   (a) A foreign investor purchasing shares of a domestic company in the stock market.
   (b) A domestic company setting up a subsidiary in a foreign country to produce goods.
   (c) A domestic investor buying foreign stocks through an exchange-traded fund (ETF).
   (d) A foreign company acquiring foreign government bonds.
4. What motivates companies to engage in Foreign Direct Investment (FDI)?
   (a) Short-term financial gains through speculative trading.
   (b) Access to new markets, resources, and technologies.
   (c) Hedging against currency fluctuations in the foreign exchange market.
   (d) Speculating on changes in interest rates in foreign markets.
5. Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?
   (a) Increased exposure to foreign exchange rate fluctuations.
   (b) Decreased job opportunities due to competition from foreign investors.
   (c) Technology transfer and knowledge spillovers.
   (d) Limited access to global markets for local businesses.
6. Foreign Direct Investment (FDI) refers to:
   (a) Short-term speculative investments in financial markets
   (b) Acquiring a significant ownership stake in a domestic company by foreign investors
   (c) Exporting goods and services to foreign markets
   (d) Purchasing foreign currency for investment purposes
7. FDI differs from portfolio investment in that FDI involves:
   (a) Buying and selling financial assets like stocks and bonds in foreign markets
   (b) Long-term investments in real assets like property, factories, and businesses in a foreign country

   (c) Exchanging one currency for another in the foreign exchange market
   (d) Providing financial assistance to countries facing balance of payments crises
8. FDI can be categorized into two types: horizontal and vertical FDI. Horizontal FDI refers to:
   (a) Investments made in the same industry or business activity as the investor's domestic operations
   (b) Investments made in different industries or business activities from the investor's domestic operations
   (c) The acquisition of a controlling stake in a domestic company by a foreign government
   (d) The transfer of technology and knowledge between countries
9. The main motivations for companies to engage in FDI include:
   (a) Speculating on short-term exchange rate movements
   (b) Accessing new markets and customers
   (c) Earning profits from currency trading
   (d) Importing goods and services from foreign markets
10. Host countries often encourage FDI by offering various incentives, which may include:
   (a) Imposing high taxes and tariffs on foreign investors
   (b) Restricting foreign ownership in domestic companies
   (c) Providing tax breaks, subsidies, and favorable regulatory treatment to foreign investors
   (d) Limiting the repatriation of profits and dividends by foreign investors

1.4 Foreign Portfolio Investment (FPI)

1. What is Foreign Portfolio Investment (FPI)?
   (a) Investment in a diverse portfolio of stocks and bonds in foreign markets
   (b) Investment in physical assets like real estate in foreign countries
   (c) Investment in short-term money market instruments in foreign markets
   (d) Investment made by foreign institutions in the domestic market

2. Which of the following is an example of FPI?
   (a) A foreign company setting up a subsidiary in a domestic country
   (b) A domestic investor buying shares of a domestic company's stock
   (c) A domestic company purchasing real estate in a foreign country
   (d) A foreign institutional investor buying shares of a foreign company's stock
3. What is the primary objective of FPI?
   (a) Long-term ownership and control of foreign businesses
   (b) Capital appreciation and short-term profits
   (c) Investment in physical assets for industrial purposes
   (d) Providing financial aid to foreign countries
4. How does FPI differ from Foreign Direct Investment (FDI)?
   (a) FPI involves investments in physical assets and businesses
   (b) FPI involves long-term ownership and control of foreign businesses
   (c) FPI involves short-term investments in financial assets
   (d) FPI involves providing financial aid to foreign countries
5. How can FPI affect the volatility of financial markets in host countries?
   (a) FPI has no impact on the volatility of financial markets
   (b) FPI reduces the volatility of financial markets by diversifying investments
   (c) FPI can increase the volatility of financial markets due to capital flows
   (d) FPI only affects the volatility of foreign financial markets
6. Foreign Portfolio Investment (FPI) refers to:
   (a) Acquiring a significant ownership stake in a domestic company by foreign investors
   (b) Buying and selling financial assets like stocks and bonds in foreign markets
   (c) Exporting goods and services to foreign markets
   (d) Providing financial assistance to countries facing balance of payments crises
7. FPI differs from Foreign Direct Investment (FDI) in that FPI involves:
   (a) Long-term investments in real assets like property, factories, and businesses in a foreign country
   (b) Short-term speculative investments in financial markets
   (c) The transfer of technology and knowledge between countries
   (d) Exporting goods and services to foreign markets
8. FPI allows investors to:
   (a) Acquire controlling stakes in domestic companies and have a say in their management
   (b) Diversify their investment portfolios across different countries and industries
   (c) Gain ownership of foreign real estate and infrastructure projects
   (d) Access government incentives and subsidies for foreign investments
9. The main instruments of FPI include:
   (a) Foreign currencies and commodities
   (b) Real estate properties in foreign countries
   (c) Stocks, bonds, and other securities in foreign markets
   (d) Direct ownership of foreign companies
10. FPI can be more volatile than FDI due to:
   (a) Longer investment horizons and strategic objectives
   (b) Government regulations and restrictions on foreign investors
   (c) Frequent buying and selling of financial assets in response to market conditions
   (d) Currency exchange rate fluctuations

1.5 Reasons for Foreign Direct Investment

1. Which of the following is a primary reason for Foreign Direct Investment (FDI)?
   (a) To diversify investment portfolios
   (b) To gain short-term profits from currency fluctuations
   (c) To establish a physical presence in a foreign market
   (d) To provide financial aid to foreign countries
2. How does FDI contribute to market expansion for multinational corporations?
   (a) FDI leads to market contraction as companies focus on domestic operations
   (b) FDI allows companies to serve only domestic markets
   (c) FDI provides access to new foreign markets and customers
   (d) FDI limits companies to specific industries and sectors

3. Why do companies engage in FDI for resource acquisition?
   (a) To increase competition in the domestic market
   (b) To access foreign markets with cheaper resources
   (c) To reduce dependence on foreign suppliers
   (d) To discourage international trade
4. What role does FDI play in technology transfer?
   (a) FDI restricts technology transfer between countries
   (b) FDI does not impact technology transfer
   (c) FDI encourages the transfer of technology to host countries
   (d) FDI is limited to specific technology-based industries
5. How does FDI contribute to employment generation?
   (a) FDI leads to job losses as domestic companies face increased competition
   (b) FDI has no impact on employment in host countries
   (c) FDI creates job opportunities through new business establishments
   (d) FDI focuses only on expatriate hiring, neglecting local workforce
6. Foreign Direct Investment (FDI) is undertaken by multinational corporations (MNCs) for various reasons. Which of the following is NOT a common reason for MNCs to engage in FDI?
   (a) Accessing new markets and customers
   (b) Reducing exposure to exchange rate fluctuations
   (c) Obtaining access to strategic resources and inputs
   (d) Taking advantage of lower labor costs in foreign countries
7. MNCs often invest in foreign countries to gain access to new markets and customers. This strategy allows them to:
   (a) Increase the costs of their products in foreign markets
   (b) Increase their domestic production and market share
   (c) Export their products from the home country at a lower cost
   (d) Tap into the growing demand for their goods and services in foreign markets
8. FDI can also be driven by the desire to obtain access to strategic resources and inputs, such as:
   (a) Financial capital and foreign exchange reserves
   (b) Skilled labor and technology
   (c) Renewable energy sources like wind and solar power
   (d) Freshwater and arable land for agricultural production

9. Some MNCs invest in foreign countries to establish production facilities and take advantage of lower labor costs. This strategy is known as:
   (a) Horizontal FDI
   (b) Vertical FDI
   (c) Portfolio investment
   (d) Official Development Assistance (ODA)
10. FDI can also be driven by the desire to avoid trade barriers and protectionist policies in foreign markets. By investing locally, MNCs can:
   (a) Access government subsidies and tax breaks in the home country
   (b) Secure exclusive intellectual property rights in the foreign market
   (c) Bypass import tariffs and quotas imposed on foreign goods
   (d) Influence the exchange rate of the foreign currency

1.6 Modes of Foreign Direct Investment (FDI)

1. What are the different modes of Foreign Direct Investment (FDI)?
   (a) Outward FDI and Inward FDI
   (b) Horizontal FDI and Vertical FDI
   (c) Greenfield investment and Cross-border Mergers and Acquisitions (M&(a)
   (d) Portfolio Investment and Direct Investment
2. What is Greenfield investment in the context of FDI?
   (a) Acquisition of an existing foreign company
   (b) Investment in a diverse portfolio of stocks and bonds in foreign markets
   (c) Setting up new businesses or facilities in a foreign country
   (d) Providing financial aid to foreign countries
3. What is Cross-border Mergers and Acquisitions (M&(a) as a mode of FDI?
   (a) Investment in a diverse portfolio of stocks and bonds in foreign markets
   (b) Acquisition of an existing foreign company
   (c) Setting up new businesses or facilities in a foreign country
   (d) Providing financial aid to foreign countries

4. How does Horizontal FDI differ from Vertical FDI?
   (a) Horizontal FDI involves investment in unrelated industries, while Vertical FDI involves investment in related industries.
   (b) Horizontal FDI involves investment in the same industry in different countries, while Vertical FDI involves investment in different industries in the same country.
   (c) Horizontal FDI involves investment in foreign stocks and bonds, while Vertical FDI involves investment in physical assets.
   (d) Horizontal FDI and Vertical FDI are the same; they refer to different terms for the same investment mode.
5. What is the difference between Outward FDI and Inward FDI?
   (a) Outward FDI refers to FDI flows out of a country, while Inward FDI refers to FDI flows into a country.
   (b) Outward FDI involves Greenfield investment, while Inward FDI involves Cross-border Mergers and Acquisitions (M&(a).
   (c) Outward FDI is carried out by domestic companies, while Inward FDI is carried out by foreign companies.
   (d) Outward FDI has no impact on the home country's economy, while Inward FDI has no impact on the host country's economy.
6. Which mode of Foreign Direct Investment (FDI) involves the establishment of new operations or facilities in a foreign country?
   (a) Greenfield investment
   (b) Merger and acquisition
   (c) Portfolio investmen
   (d) Joint venture
7. When a foreign company acquires a substantial ownership stake in an existing domestic company, it is known as:
   (a) Greenfield investment
   (b) Merger and acquisition
   (c) Portfolio investment
   (d) Joint venture
8. A joint venture in FDI is characterized by:
   (a) A foreign company acquiring a domestic company to form a new entity
   (b) Two or more companies from different countries collaborating to create a new venture

   (c) A foreign company buying shares of a domestic company in the stock market
   (d) A multinational corporation investing in various financial assets in foreign markets
9. Which mode of FDI involves the acquisition of shares or ownership stakes in a domestic company without seeking full control over the company's management?
   (a) Greenfield investment
   (b) Merger and acquisition
   (c) Portfolio investment
   (d) Joint venture
10. The primary motivation for multinational corporations to choose a joint venture as a mode of FDI is:
   (a) Access to new markets and customers
   (b) Obtaining full control over the foreign company's management
   (c) Reducing exposure to exchange rate fluctuations
   (d) Access to low-cost resources and inputs in the foreign market

1.7 Benefits of Foreign Direct Investment

1. How does Foreign Direct Investment (FDI) contribute to job creation in host countries?
   (a) FDI does not contribute to job creation in host countries
   (b) FDI creates jobs only in the primary sector, such as agriculture
   (c) FDI creates jobs in the primary, secondary, and tertiary sectors of the economy
   (d) FDI creates jobs in the host country's government sector only
2. How does FDI impact technology transfer in host countries?
   (a) FDI reduces technology transfer as companies prefer to retain technology within their home country
   (b) FDI has no impact on technology transfer between countries
   (c) FDI encourages technology transfer as companies bring advanced technologies to host countries
   (d) FDI limits technology transfer due to intellectual property protection concerns

3. What role does FDI play in stimulating economic growth in host countries?
   (a) FDI has no impact on economic growth in host countries
   (b) FDI stimulates economic growth by promoting competition and efficiency
   (c) FDI only leads to economic growth in the home country of the investing company
   (d) FDI stimulates economic growth by increasing the trade deficit in host countries
4. How does FDI contribute to infrastructure development in host countries?
   (a) FDI has no impact on infrastructure development in host countries
   (b) FDI leads to infrastructure development only in the home country of the investing company
   (c) FDI can contribute to infrastructure development in host countries through investments in key sectors
   (d) FDI leads to a decline in infrastructure quality in host countries
5. What is the relationship between FDI and export promotion in host countries?
   (a) FDI has no impact on export promotion in host countries
   (b) FDI leads to decreased exports in host countries
   (c) FDI can lead to export promotion as companies use host countries as a base for exporting goods and services
   (d) FDI only impacts the import sector of host countries
6. Foreign Direct Investment (FDI) can bring various benefits to the host country's economy. Which of the following is NOT a common benefit of FDI for the host country?
   (a) Job creation and employment opportunities
   (b) Transfer of technology and knowledge
   (c) Increased competition leading to lower prices for consumers
   (d) Capital flight and loss of foreign exchange reserves
7. FDI can contribute to economic growth and development in the host country by:
   (a) Reducing competition in domestic markets
   (b) Repatriating profits and dividends to the home country
   (c) Encouraging domestic firms to innovate and improve their efficiency
   (d) Importing cheap labor from the home country

8. One of the benefits of FDI for the host country is the creation of new jobs and employment opportunities. This is particularly crucial in countries with:
   (a) High unemployment rates and limited domestic investment
   (b) Low foreign exchange reserves and budget deficits
   (c) Strong trade surpluses and a robust manufacturing sector
   (d) Stable political systems and low inflation rates
9. FDI can lead to technology spillovers in the host country, which refers to:
   (a) The transfer of technology and knowledge from domestic firms to foreign investors
   (b) The transfer of technology and knowledge from foreign investors to domestic firms
   (c) The repatriation of technology and knowledge back to the home country
   (d) The acquisition of technology and knowledge by the host country's government
10. FDI can enhance the host country's export competitiveness by:
   (a) Increasing import tariffs and barriers to foreign competition
   (b) Subsidizing domestic industries to reduce production costs
   (c) Attracting foreign investment in export-oriented sectors
   (d) Reducing access to foreign markets for domestic firms

1.8 Potential Problems Associated With Foreign Direct Investment

1. What are the potential problems associated with Foreign Direct Investment (FDI) for host countries?
   (a) Loss of domestic ownership and control over industries
   (b) Limited access to advanced technologies and managerial expertise
   (c) Reduced employment opportunities due to foreign labor influx
   (d) Decreased competition and efficiency in the local market
2. How can FDI lead to limited access to advanced technologies and managerial expertise in host countries?
   (a) FDI restricts technology transfer to protect intellectual property rights
   (b) Foreign companies do not bring advanced technologies to host countries
   (c) FDI is limited to investing in low-tech industries in host countries
   (d) FDI has no impact on technology transfer in host countries

3. What is the potential problem of "resource curse" associated with FDI?
   (a) Host countries become overly dependent on foreign investments
   (b) FDI leads to an abundance of natural resources in host countries
   (c) FDI reduces economic growth in resource-rich host countries
   (d) Host countries experience a shortage of resources due to FDI
4. How can FDI impact the local labor market in host countries?
   (a) FDI has no impact on the local labor market
   (b) FDI leads to increased job opportunities for local workers
   (c) FDI may result in wage disparities and job displacements
   (d) FDI only benefits foreign workers in the host country
5. What is the potential problem of "tax competition" associated with FDI?
   (a) FDI leads to an increase in corporate taxes in host countries
   (b) Host countries may offer excessive tax incentives to attract FDI
   (c) FDI has no impact on the tax policies of host countries
   (d) FDI leads to a decrease in corporate taxes in host countries
6. One of the potential problems associated with FDI is the risk of:
   (a) Increased competition leading to lower prices for consumers
   (b) Loss of jobs and employment opportunities in the host country
   (c) Technology spillovers and knowledge transfer to domestic firms
   (d) Enhanced export competitiveness for the host country's industries
7. Host countries may face a potential problem related to the repatriation of profits by foreign investors. This refers to:
   (a) The transfer of profits and dividends from domestic firms to foreign investors
   (b) The transfer of profits and dividends from foreign investors to domestic firms
   (c) The reinvestment of profits within the host country's economy
   (d) The increase in government revenue from corporate taxation
8. The term "resource curse" is used to describe a potential problem associated with FDI in some countries. It refers to:
   (a) The abundance of natural resources leading to economic stagnation
   (b) The lack of essential resources for industrial development
   (c) The concentration of foreign investment in a few industries, neglecting other sectors
   (d) The successful exploitation of natural resources for economic growth

9. A potential problem associated with FDI is the risk of creating a dependence on foreign technology and expertise. This could lead to:
   (a) Enhanced technological capabilities of domestic firms
   (b) Increased competition in the domestic market
   (c) Reduced innovation and research and development activities
   (d) Diversification of the host country's export markets
10. The "race to the bottom" is a potential problem that arises when countries compete to attract FDI by:
    (a) Implementing high corporate tax rates to generate government revenue
    (b) Offering the highest labor wages to attract foreign investors
    (c) Providing generous incentives and subsidies to foreign companies
    (d) Restricting foreign ownership in domestic companies

1.9 Foreign Direct Investment in India

1. What has been the trend of FDI inflows into India in recent years?
   (a) Declining trend
   (b) Stable with no significant changes
   (c) Fluctuating between high and low levels
   (d) Increasing trend
2. Which sector attracts the highest FDI inflows in India?
   (a) Manufacturing
   (b) Agriculture
   (c) Services
   (d) Mining
3. What are the key factors that attract foreign investors to India?
   (a) Low population and market size
   (b) Lack of skilled labor force
   (c) Favorable economic policies and market potential
   (d) High corporate tax rates
4. What is the "Make in India" campaign aimed at?
   (a) Encouraging foreign companies to exit the Indian market
   (b) Promoting domestic consumption of goods and services
   (c) Attracting foreign investment and promoting manufacturing in India
   (d) Encouraging Indian companies to invest overseas

5. What is the current regulatory body responsible for overseeing Foreign Direct Investment (FDI) in India?
   (a) Reserve Bank of India (RBI)
   (b) Securities and Exchange Board of India (SEBI)
   (c) Ministry of Finance, Government of India
   (d) Department for Promotion of Industry and Internal Trade (DPIIT)
6. Foreign Direct Investment (FDI) in India is regulated and governed by:
   (a) The World Trade Organization (WTO)
   (b) The International Monetary Fund (IMF)
   (c) The Reserve Bank of India (RBI) and the Foreign Exchange Management Act (FEM(a)
   (d) The Ministry of External Affairs (ME(a)
7. Which sector has historically attracted the highest FDI inflows in India?
   (a) Agriculture and allied activities
   (b) Manufacturing and industrial sectors
   (c) Information Technology (IT) and Business Process Outsourcing (BPO)
   (d) Healthcare and pharmaceutical industries
8. The "Make in India" initiative, launched by the Indian government, aims to:
   (a) Promote domestic consumption and reduce imports
   (b) Attract foreign investment and enhance India's manufacturing sector
   (c) Encourage emigration of skilled Indian workers to other countries
   (d) Strengthen India's agricultural sector and increase food exports
9. To attract FDI in specific sectors, the Indian government has allowed a higher level of FDI under the automatic route in areas such as:
   (a) Defense and retail trading
   (b) Education and healthcare
   (c) Telecommunications and insurance
   (d) Banking and financial services
10. The Indian government has implemented various policy measures to ease FDI inflows, such as:
   (a) Imposing strict capital controls and restrictions on repatriation of profits
   (b) Limiting foreign ownership in domestic companies to protect domestic industries
   (c) Simplifying regulations, liberalizing foreign investment norms, and improving business environment
   (d) Banning foreign investment in sensitive sectors like defense and infrastructure

1.10 Overseas Direct Investment by Indian Companies

1. What is Overseas Direct Investment (ODI) by Indian companies?
   (a) Investment made by foreign companies in India
   (b) Investment made by Indian companies in foreign countries
   (c) Investment made by Indian companies in other Indian companies
   (d) Investment made by foreign companies in other foreign countries
2. What motivates Indian companies to make Overseas Direct Investments (ODI)?
   (a) To reduce import of foreign goods
   (b) To acquire ownership of Indian companies
   (c) To expand their global footprint and access international markets
   (d) To increase competition in the domestic market
3. How does Overseas Direct Investment (ODI) impact the Indian economy?
   (a) ODI has no impact on the Indian economy
   (b) ODI leads to increased imports and trade deficits
   (c) ODI can contribute to economic growth and job creation in India
   (d) ODI leads to decreased exports and a weaker currency
4. What role does the Reserve Bank of India (RBI) play in regulating Overseas Direct Investment (ODI) by Indian companies?
   (a) RBI restricts all ODI activities by Indian companies
   (b) RBI provides financial incentives to encourage ODI by Indian companies
   (c) RBI monitors and regulates the ODI activities of Indian companies
   (d) RBI promotes ODI in specific sectors through policy initiatives
5. Which sector has seen significant Overseas Direct Investment (ODI) by Indian companies in recent years?
   (a) Information Technology (IT) and Business Process Outsourcing (BPO)
   (b) Agriculture and Agribusiness

(c) Retail and Consumer Goods
(d) Manufacturing and Automotive

6. Overseas Direct Investment (ODI) refers to:
(a) Foreign investment in India by multinational corporations
(b) Investment in Indian companies by foreign investors
(c) Indian companies investing in businesses and assets in foreign countries
(d) Foreign portfolio investment in Indian financial markets

7. Indian companies undertake Overseas Direct Investment (ODI) primarily to:
(a) Gain access to new markets and customers abroad
(b) Avoid competition from foreign companies in the Indian market
(c) Obtain financial assistance from foreign governments
(d) Reduce their comestic production and operations

8. The Reserve Bank of India (RBI) regulates ODI by Indian companies. The regulatory framework aims to:
(a) Encourage Indian companies to invest only in neighboring countries
(b) Restrict ODI to specific sectors in foreign countries
(c) Liberalize ODI norms and simplify the approval process
(d) Prohibit Indian companies from investing in foreign assets

9. Which sector has seen significant Overseas Direct Investment (ODI) by Indian companies in recent years?
(a) Agriculture and allied activities
(b) Manufacturing and industrial sectors
(c) Information Technology (IT) and Business Process Outsourcing (BPO)
(d) Healthcare and pharmaceutical industries

10. The "Going Global" strategy is often pursued by Indian companies through ODI. This strategy aims to:
(a) Focus solely on the domestic market and reduce foreign exposure
(b) Diversify business risks by expanding into international markets
(c) Attract foreign companies to invest in India
(d) Limit foreign investment in the Indian economy

ANSWER

1.1 Introduction

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(b)	(c)	(b)	(b)	(c)	(b)	(b)	(a)	(c)

1.2 Types of Foreign Capital

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(b)	(b)	(a)	(c)	(b)	(b)	(c)	(b)	(d)

1.3 Foreign Direct Investment (FDI)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(c)	(b)	(b)	(c)	(b)	(b)	(a)	(b)	(c)

1.4 Foreign Portfolio Investment (FPI)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(d)	(b)	(c)	(c)	(b)	(b)	(b)	(c)	(c)

1.5 Reasons for Foreign Direct Investment

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(c)	(b)	(c)	(c)	(b)	(d)	(b)	(a)	(c)

1.6 Modes of Foreign Direct Investment (FDI)

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(c)	(b)	(b)	(a)	(a)	(b)	(b)	(c)	(a)

1.7 Benefits of Foreign Direct Investment

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(c)	(c)	(b)	(c)	(c)	(d)	(c)	(a)	(b)	(c)

1.8 Potential Problems Associated With Foreign Direct Investment

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(a)	(a)	(a)	(b)	(b)	(b)	(a)	(a)	(c)	(c)

1.9 Foreign Direct Investment in India

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(d)	(c)	(c)	(c)	(d)	(c)	(c)	(b)	(c)	(c)

1.10 Overseas Direct Investment by Indian Companies

Q.No.	1	2	3	4	5	6	7	8	9	10
Answer	(b)	(c)	(c)	(c)	(a)	(c)	(a)	(c)	(c)	(b)

PAST YEAR QUESTIONS AND ANSWERS

2019 - MAY

[1] Which of the following is correct?
(a) 49% FDI is allowed in defence production
(b) 49% FDI is allowed in private sector banking
(c) 74% FDI is now allowed in multibrand retails
(d) 100% FDI is allowed in insurance (1 mark)

Answer:
(b)
49% FDI is allowed in private sector banking

2024 - JUNE

[1] Not a component of FDI according to IMF:
(a) Equity capital (b) Re-investment earnings
(c) Portfolio investments (d) Intra company loans (1 mark)

Answer:
(c) Portfolio investments
Components or instruments of FDI are: (i) Equity capital, (ii) Reinvested earnings, (iii) Intra-company loans between direct investors and affiliate enterprises.

2024 - SEPTEMBER

[1] What is the main difference between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)?
(a) FDI involves financial assets, while FPI creates physical assets.
(b) FDI creates physical assets, while FPI involves only financial assets.
(c) Both FDI and FPI create physical assets.
(d) Both FDI and FPI involve only financial assets. (1 mark)

Answer:
(b) FDI creates physical assets, while FPI involves only financial assets.
Foreign Direct Investment (FDI) typically involves investing in physical assets or businesses in another country, while Foreign Portfolio Investment (FPI) refers to investing in financial assets like stocks and bonds without taking direct control of the companies.

[2] Foreign corporations invest in India to benefit from the country's particular investment privileges such as tax breaks and comparatively lower salaries. This type of investment is an example of:

(a) Joint Venture (b) Foreign Portfolio Investment
(c) Foreign Direct Investment (d) Strategic Alliance (1 mark)

Answer:

(c) Foreign Direct Investment

When foreign corporations invest in India to take advantage of investment privileges like tax breaks and lower salaries, it is considered Foreign Direct Investment (FDI), as they are typically investing directly in businesses or assets in the country.

2025 - JANUARY

[1] Investments which are reciprocal investments between countries are referred to as ______.

(a) Horizontal direct investment
(b) Vertical direct investment
(c) Two-way direct foreign investment
(d) Conglomerate foreign investment (1 mark)

Answer:

(c) Two-way direct foreign investment

Explanation:

Two-way direct foreign investment refers to reciprocal investments between countries, where each country both invests in the other. This type of investment occurs when businesses from two countries invest in each other's markets, typically in similar industries or sectors.

2025 - MAY

[1] Match the following :

Table A	Table B
(a) Has a long term interest and is invested for long	(i) Foreign Portfolio Investment
(b) Speculative in Nature	(ii) Foreign Direct Investment
(c) Help developing countries benefit fully from global trading system	(iii) Free Floating exchange rate system
(d) Government and central banks do not participate in the market for foreign exchange	(iv) World Trade Organisation

(a) (a) - (ii), (b) - (i), (c) - (iv), (d) - (iii)
(b) (a) - (i), (b) - (ii), (c) - (iv), (d) - (iii)
(c) (a) - (ii), (b) - (i), (c) - (iii), (d) - (iv)
(d) (a) - (i), (b) - (ii), (c) - (iii), (d) - (iv) (1 mark)

[2] An investment in which one investor establishes a business activity in a foreign country which is different from investor's main business activity but in some way supplements its major activity is called ________.

(a) Horizontal direct investment
(b) Vertical investment
(c) Conglomerate type of FDI
(d) Two way direct foreign investment (1 mark)

- Accordingly, a capital abundant country will produce and export capital-intensive goods relatively more cheaply and a labour-abundant country will produce and export labour-intensive goods relatively more cheaply than other country.
- The Factor-Price Equalization Theorem states that international trade equalizes the factor prices between the trading nations. Therefore, with free trade, wages and returns on capital will converge across the countries.
- NTT is the latest entrant to explain the rising proportion of world trade between the developed and bigger developing economies (such as BRICS), which trade in similar products. These countries constitute more than 50% of world trade.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *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

2. *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

3. *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

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. *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*

6. *According to the theory of comparative advantage*

   (a) *trade is a 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*

7. *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*

8. *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*

9. *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*

10. *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*

ANSWERS

1.	**(b)**	2.	**(b)**	3.	**(d)**	4.	**(c)**	5.	**(b)**	6	**(b)**
7.	**(b)**	8.	**(d)**	9.	**(b)**	10.	**(d)**				

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *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*

2. *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*

3. *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*

4. *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*

5. *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.*

6. *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*

7. *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 the above*

8. *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 consumers 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*

9. *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 the above*

10. *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*

11. *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*

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

(a) *import quotas*

(b) *tariffs*

(c) *export subsidies*

(d) *technical standards of products*

ANSWERS

1.	**(d)**	2.	**(b)**	3.	**(b)**	4.	**(b)**	5.	**(c)**	6	**(d)**
7.	**(d)**	8.	**(c)**	9.	**(d)**	10.	**(c)**	11.	**(b)**	12.	**(b)**

policy review mechanism (TPRM) and plurilateral trade agreements on trade in civil aircraft and government procurement.

- The Doha Round, formally the Doha Development Agenda, which is the ninth round since the Second World War was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.
- The major issues related to the WTO are in respect of slow progress of multilateral negotiations, uncertainties resulting from regional trade agreements, inadequate or negligible trade liberalisation, and those which are specific to the developing countries, namely, protectionism and lack of willingness among developed countries to provide market access, difficulties that they face in implementing the present agreements, apparent north-south divide, exceptionally high tariffs, tariff escalation, erosion of preferences and difficulties with regards to adjustments.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *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*

2. *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 the above*

3. *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*

4. *'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*

5. *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*

6. *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*

7. *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*

8. *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*

9. *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 the above*

10 *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*

11. *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*

ANSWERS

1.	**(c)**	2.	**(b)**	3.	**(b)**	4.	**(c)**	5.	**(d)**	6	**(d)**
7.	**(c)**	8.	**(b)**	9.	**(d)**	10.	**(c)**	11.	**(b)**		

- Devaluation is a deliberate downward adjustment by central bank in the value of a country's currency relative to another currency, group of currencies or standard.
- An appreciation of a country's currency cause changes in import and export prices will lead to changes in import and export volumes, causing resulting in import spending and export earnings.
- Exchange rate depreciation lowers the relative price of a country's exports, raises the relative price of its imports, increases demand both for domestic import-competing goods and for exports, leads to output expansion, encourages economic activity, increases the international competitiveness of domestic industries, increases the volume of exports and improves trade balance.
- Currency appreciation raises the price of exports, decrease exports; increase imports, adversely affect the competitiveness of domestic industry, cause larger deficits and worsens the trade balance.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *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*

2. *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*

3. *'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 statements are*

   (a) *wholly correct*

   (b) *partially correct*

   (c) *wholly incorrect*

   (d) *None of the above*

4. *Match the following by choosing the term which has the same meaning*

i)	***floating exchange rate***	ii)	***fixed exchange rate***
iii)	*pegged exchange rate*	a.	*depreciation*
iv)	*devaluation*	b.	*revaluation*
v)	*appreciation*	c.	*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)*

5. *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*

6. *Which of the following statements 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 the above*

7. *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*

8. *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*

9. *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*

10. *'Vehicle Currency' refers to*

(a) a currency that is widely used to denominate international contracts 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

ANSWERS

1.	**(b)**	2.	**(c)**	3.	**(a)**	4.	**(d)**	5.	**(c)**	6	**(d)**
7.	**(a)**	8.	**(b)**	9.	**(c)**	10.	**(d)**				

control of domestic monopolies and improvement of balance of payments position.

- Potential problems of foreign direct investment include use of inappropriate capital-intensive methods in a labour-abundant country, increase in regional disparity, crowding-out of domestic investments, diversion of capital resulting in distorted pattern of production and investment, instability in the balance of payments and exchange rate and indiscriminate repatriation of the profits.
- FDIs are also likely to indulge in anti-ethical market distortions, off–shoring or shifting of jobs, overexploitation of natural resources causing environmental damage, exercising monopoly power, decrease in competitiveness of domestic companies, potentially jeopardizing national security and sovereignty, worsening commodity terms of trade and causing emergence of a dual economy.
- FDI in India (Inbound FDI), mostly a post reform phenomenon, is a major source of non-debt financial resource for economic development. The government has, at different stages, liberalized FDI by increasing sectoral caps, bringing in more activities under automatic route and easing conditions for foreign investment.
- Overseas direct investments by Indian companies (Outbound FDI), made possible by progressive relaxation of capital controls and simplification of procedures, have undergone substantial changes in terms of size, geographical spread and sectoral composition. Outward Foreign Direct Investment (OFDI) from India stood at US$ 1.86 billion in the month of June 2016.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *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.

2. *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 the above*

3. *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*

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

   (a) *Brownfield investment*

   (b) *Merger and acquisition*

   (c) *Greenfield investment*

   (d) *Strategic alliances*

5. *Which is the leading country in respect of inflow of FDI to India?*

   (a) *Mauritius*

   (b) *USA*

   (c) *Japan*

   (d) *USA*

6. *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*

7. *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*

8. *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*

9. *Foreign investments are prohibited in*

(a) *Power generation and distribution*

(b) *Highways and waterways*

(c) *Chit funds and Nidhi company*

(d) *Airports and air transport*

10. *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.*

ANSWERS

1.	**(c)**	2.	**(d)**	3.	**(c)**	4.	**(c)**	5.	**(a)**	6	**(b)**
7.	**(d)**	8.	**(d)**	9.	**(c)**	10.	**(c)**				