

INTERNATIONAL TRADE & INDIAN ECONOMY

CA Foundation (NSET) - Paper - 4 Business Economics

1. Which of the following does not represent a difference between internal trade and international trade? [1]
 - a) differences in illegal systems
 - b) transactions in multiple currencies
 - c) homogeneity of customers and currencies
 - d) differences in legal systems
2. **Bound tariff** refers to [1]
 - a) clubbing of tariffs of different commodities into one common measure.
 - b) the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.
 - c) the lower limit of the tariff below which a nation cannot be taxing its imports.
 - d) the limit within which the country's export duty should fall so that there are cheaper exports.
3. Under tariff rate quota [1]
 - 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. a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much lower rate.
 - a) Statement (a) is correct.
 - b) Statement (d) is correct.
 - c) Statement (c) is correct.
 - d) Statement (b) is correct.
4. Anti-dumping duties are [1]
 - 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)
 - a) Statement (c) is correct.
 - b) Statement (b) is correct.
 - c) Statement (d) is correct.
 - d) Statement (a) is correct.

5. **Vehicle Currency** refers to [1]
- a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties.
 - a currency that is traded internationally and, therefore, is in high demand.
 - a type of currency used in euro area for synchronization of exchange rates.
 - 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.
- Statement (d) is true.
 - Statement (b) is true.
 - Statement (c) is true.
 - Statement (a) is true.
6. A specific tariff is [1]
- a tax on imports defined as an amount of currency per unit of the good.
 - an import tax that is common to all goods imported during a given period.
 - a specified fraction of the economic value of an imported good.
 - a tax on a set of specified imported good.
7. The Agreement on Trade-Related Aspects of Intellectual Property Rights [1]
- mandates to maintain high levels of intellectual property protection by all members.
 - stipulates to administer a system of enforcement of intellectual property rights.
 - all of these
 - provides for most-favoured-nation treatment and national treatment for intellectual properties.
8. 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? [1]
- The US decides not to import from Country X.
 - Increased imports by consumers of Country X.
 - Repayment of foreign debts by Country X.
 - An increase in remittances from the employees who are employed abroad to their families in the home country.
9. Which of the following statement is false in respect of FPI? [1]
- portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments.
 - is effected largely by individuals and institutions through the mechanism of capital market.
 - is difficult to recover as it involves purely long-term investments and the investors have controlling interest.
 - investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.
- Statement (b) is false.
 - Statement (c) is false.
 - Statement (d) is false.
 - Statement (a) is false.
10. An increase in the supply of foreign exchange [1]
- shifts the supply curve to the right and as a
 - more units of domestic currency are

consequence, the exchange rate increases.

required to buy a unit of foreign exchange.

c) the domestic currency depreciates and the foreign currency appreciates.

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

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

[1]

- 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.

a) Statement (b) is correct.

b) Statement (c) is correct.

c) Statement (d) is correct.

d) Statement (a) is correct.

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

[1]

a) trade in intellectual property rights-based goods

b) market access to goods from developed countries

c) trade in agricultural goods

d) trade in manufactured goods

13. A foreign direct investor

[1]

a) May enter India only through automatic route

b) May enter India only through government route

c) All of these

d) May enter India only through equity in domestic enterprises

14. 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?

[1]

Labour cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

a) Does not gain anything

b) 20 labour hours

c) 10 labour hours

d) 30 labour hours

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

[1]

a) Mr. Z a citizen of Country X buys a controlling share in an Sri Lankan IT firm.

b) A firm in Country X buys bonds issued by a Chinese computer manufacturer.

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

d) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors.

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

[1]

a) it raises the price for which they can sell

b) it determines the quantity that can be

- their product in the domestic market. imported to the country.
- c) it reduces their producer surplus, making them more efficient. d) they get a part of the tariff revenue.
17. Which of the following culminated in the establishment of the World Trade Organization? [1]
- a) The Tokyo Round b) The Uruguay Round
- c) The Doha Round d) The Kennedy Round
18. According to the theory of comparative advantage [1]
- a) trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero. b) gains from trade depends upon factor endowment and utilization.
- c) nothing definite can be said about the gains from trade. d) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive.
19. The Agreement on Textiles and Clothing [1]
- 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.
20. Choose the correct statement [1]
- 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.
- a) Statement (b) is correct. b) Statement (a) is correct.
- c) Statement (c) is correct. d) Statement (d) is correct.
21. Choose the correct statement [1]
- a. The GATT was meant to prevent exploitation of poor countries by richer countries.
- b. The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
- c. All members of the World Trade Organization are required to avoid tariffs of all types.
- d. All of these
- a) Statement (c) is correct. b) Statement (d) is correct.
- c) Statement (b) is correct. d) Statement (a) is correct.
22. A countervailing duty is [1]
- a. a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country.
- b. charged by importing countries to ensure fair and market-oriented pricing of imported products.

- c. charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies.

d. All of these.

 - a) Statement (b) is correct.
 - b) Statement (d) is correct.
 - c) Statement (a) is correct.
 - d) Statement (c) is correct.

23. 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 [1]

 - a) partially correct
 - b) wholly correct
 - c) partially incorrect
 - d) wholly incorrect

24. Foreign investments are prohibited in [1]

 - a) Highways and waterways
 - b) Chit funds and Nidhi company
 - c) Power generation and distribution
 - d) Airports and air transport

25. The **National treatment** principle stands for [1]

 - a) exported products are to be treated no worse in the domestic market than the local ones.
 - b) imported products should have the same tariff, no matter where they are imported from.
 - c) the procedures within the WTO for resolving disagreements about trade policy among countries.
 - d) the principle that imported products are to be treated no worse in the domestic market than the local ones.

26. Ricardo explained the law of comparative advantage on the basis of [1]

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

27. The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments [1]

 - a) market access and agricultural credit support
 - b) market access, domestic support and export subsidies
 - c) on increasing agricultural productivity and rural development
 - d) market access, import subsidies and export subsidies

28. Comparative advantage refers to [1]

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

29. 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? [1]

 - a) The demand curve for dollars shifts to the right and Indian Rupee depreciates.
 - b) The demand curve for dollars shifts to the left and leads to an increase in exchange

a) Statement (b) is correct.

c) Statement (a) is correct.

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

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

30. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports [1]

a) Capitalism

b) Laissez faire

c) Mercantilism

d) Socialism

31. Which of the following types of FDI includes creation of fresh assets and production facilities in the host country? [1]

a) Greenfield investment

b) Brownfield investment

c) Merger and acquisition

d) Strategic alliances

32. An argument in favour of direct foreign investment is that it tends to [1]

a) protect domestic industries

b) promote rural development

c) keep inflation under control

d) increase access to modern technology

33. The essence of **MFN principle** is [1]

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

b) equality of treatment of all member countries of WTO in respect of matters related to trade.

c) all of these

d) favour one, country, you need to favour all in the same manner.

34. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that: [1]

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

a) All of these

b) Bangladesh has a comparative advantage in mats

c) India has a comparative advantage in tables

d) Bangladesh has an absolute advantage in mats

35. Non-tariff barriers (NTBs) include all of the following except: [1]

a) technical standards of products

b) tariffs

c) export subsidies

d) import quotas

36. The WTO commitments [1]

a) affect both developed and developing countries equally.

b) affect developed countries adversely because they have comparatively less agricultural goods.

- c) affect developing countries more because they need to make radical adjustments. d) affect none as they increase world trade and ensure prosperity to all.

37. Which of the following statements is incorrect? [1]
- 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.
- a) Statement (c) is correct. b) Statement (d) is correct.
c) Statement (a) is correct. d) Statement (b) is correct.
38. Which is the leading country in respect of inflow of FDI to India? [1]
- a) USA b) Japan
 - c) USA d) Mauritius
39. The theory of absolute advantage states that [1]
- 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.
- a) Statement (d) is correct. b) Statement (a) is correct.
c) Statement (b) is correct. d) Statement (c) is correct.
40. A tax applied as a percentage of the value of an imported good is known as [1]
- a) preferential tariff b) mixed or compound tariff
 - c) specific tariff d) ad valorem tariff
41. Escalated tariff refers to [1]
- a) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries.
 - b) nominal tariff rates on raw materials which are greater than tariffs on manufactured products.
 - c) nominal tariff rates on manufactured products which are greater than tariffs on raw materials.
 - d) nominal tariff rates on manufactured products which are less than tariffs on raw materials.
42. At any point of time, all markets tend to have the same exchange rate for a given currency due to [1]
- a) Speculation b) Currency futures
 - c) Arbitrage d) Hedging

43. Which of the following is a component of foreign capital? [1]
- a) Soft loans for e.g. from affiliates of World Bank such as IDA
 - b) Direct inter government loans
 - c) Loans from international institutions (e.g. World Bank, IMF, ADB)
 - d) All of these
44. Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage? [1]
- a) The Heckscher-Ohlin Theory
 - b) The factor endowment theory
 - c) Modern theory of international trade
 - d) None of these
45. Voluntary export restraints involve: [1]
- 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.
- a) Statement (a) is correct.
 - b) Statement (d) is correct.
 - c) Statement (c) is correct.
 - d) Statement (b) is correct.
46. Which of the following is not a non-tariff barrier. [1]
- a) Pre shipment product inspection and certification requirements.
 - b) Import quotas on specific goods.
 - c) Countervailing duties charged by importing country.
 - d) Complex documentation requirements.
47. Currency devaluation [1]
- 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. both (a) and (c)
- a) Statement (a) is correct.
 - b) Statement (c) is correct.
 - c) Statement (d) is correct.
 - d) Statement (b) is correct.
48. The World Trade Organization (WTO) [1]
- a) Both have an inbuilt mechanism to settle disputes among members. and was established to ensure free and fair trade internationally.
 - b) was established to ensure free and fair trade internationally.
 - c) has an inbuilt mechanism to settle disputes
 - d) has now been replaced by the GATT.

among members.

49. Which of the following statements is true? [1]

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

- a) Statement (b) is true.
- b) Statement (c) is true.
- c) Statement (a) is true.
- d) Statement (d) is true.

50. Which of the following is a reason for foreign direct investment? [1]

- a) desire to capture of large and rapidly growing emerging markets.
- b) desire to influence home country industries.
- c) secure access to minerals or raw materials.
- d) both secure access to minerals or raw materials and desire to capture of large and rapidly growing emerging markets.

51. SPS measures and TBTs are [1]

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

52. The strategy of agricultural development in India before green revolution was- [1]

- a) High yielding varieties of seeds and chemical fertilizers to boost productivity.
- b) All of these
- c) Institutional reforms such as land reforms.
- d) Technological up gradation of agriculture.

53. The **Hindu growth rate** is a term used to refer to [1]

- a) the growth rate of the country because India is referred to as 'Hindustan'.
- b) the low rate of economic growth of India from the 1950 s to the 1980 s, which averaged around 3.5 per cent per year.
- c) the low growth of the economy during British period marked by an average of 3.5 percent.
- d) the high rate of growth achieved after the new economic policy of 1991.

54. The Indian industry stagnated under the colonial rule because [1]

- a) Deterioration was caused by high prices of inputs due to draught.
- b) The Indian manufactures could not compete with the imports of cheap machine made goods.
- c) All of these
- d) Indians were keen on building huge

structures and monuments only.

55. In the context of the new economic policy of 1991, the term **disinvestment** stands for [1]
- a) A policy whereby government investments are reduced to correct fiscal deficit.
 - b) The policy of sale of portion of the government shareholding of a public sector enterprise.
 - c) The policy of public partnership in private enterprise.
 - d) A policy of opening up government monopoly to the privates sector.
56. The first wave of liberalization starts in India [1]
- a) In 1990
 - b) In 1966
 - c) In 1980's
 - d) In 1951
57. The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was- [1]
- a) all the these
 - b) to prohibit monopolistic and restrictive trade practice
 - c) to provide for the control of monopolies
 - d) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
58. In terms of Ease of Doing Business in 2020 India ranks [1]
- a) 77
 - b) 45
 - c) 63
 - d) 85
59. FAME-India Scheme aims to [1]
- a) Enhance faster industrialization through private participation.
 - b) to spread India's fame among its trading partners.
 - c) Both Enhance faster industrialization through private participation and to spread India's fame among its trading partners.
 - d) to promote manufacturing of electric and hybrid vehicle technology.
60. Merchandise Exports from India Scheme was replaced by- [1]
- a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019.
 - b) Both Remission of Duties and Taxes on Export Products (RoDTEP) in 2021 and National Logistics Policy (NLP) in 2020.
 - c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021.
 - d) National Logistics Policy (NLP) in 2020.
61. Imports of foreign goods and entry of foreign investments were restricted in India because- [1]
- a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'.
 - b) Government policy was directed towards protection of domestic industries from foreign competition.
 - c) Government wanted to preserve Indian culture and to avoid influence of foreign culture.
 - d) Because foreign goods were costly and meant loss of precious foreign exchange.

62. The sequence of growth and structural change in Indian economy is characterized by [1]
- a) All of these
 - b) Unique experience of the sequence as agriculture, services, industry.
 - c) The historical pattern of prominence of sectors as industry, services, agriculture.
 - d) The historical pattern of prominence of sectors as agriculture, industry, services.
63. Which of the following is not a policy reform included in the new economic policy of 1991: [1]
- a) Foreign investment was liberalized.
 - b) removing licensing requirements for all industries.
 - c) Liberalisation of international trade.
 - d) The disinvestment of government holdings of equity share capital of public sector enterprises.
64. E-NAM is [1]
- a) a pan-India electronic trading portal which networks the existing APMC mandis.
 - b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.
 - c) An electronic name card given to citizens of India.
 - d) Both National Agriculture Market with the objective of creating a unified national market for agricultural commodities and a pan-India electronic trading portal which networks the existing APMC mandis.
65. Which one of the following is a feature of green revolution [1]
- a) grow more crops by redistributing land to landless people.
 - b) use of soil friendly green manure to preserve fertility of soil.
 - c) Diversification to horticulture.
 - d) High yielding varieties of seeds and scientific cultivation.
66. The Industrial Policy Resolution (1948) aimed at [1]
- a) an expanded role of private sector a limited role of public sector.
 - b) A shift from state led industrialization to private sector led industrialisation.
 - c) an expanded role for the public sector and licensing to the private sector.
 - d) Market oriented economic reforms and opening up of economy.
67. The new economic policy of 1991 manifest in [1]
- a) State led industrialization and import substitution.
 - b) Bringing about reduction in poverty and redistributive justice.
 - c) Rethinking the role of markets versus the state.
 - d) Emphasized the role of good governance.
68. The post-independence economic policy was rooted in- [1]
- a) social and economic redistribution through private sector initiatives.
 - b) social and economic redistribution and industrialization directed by the state.

c) Industrialization led by private entrepreneurs and redistribution by state.

d) A capitalist mode of production with heavy industrialization.

69. The Foreign Investment Promotion Board (FIPB)

[1]

a) no more exists as all inward investments are through automatic route and need no approval.

b) is the body which connects different ministries in respect of foreign portfolio investments.

c) a government entity through which inward investment proposals were routed to obtain required government approvals.

d) no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal.