Ravi home tutions

7. International Economics

12th Standard

Economics

123 x 1 = 123

1) Trade between two countries is known as ____ trade

(a) External(b) Internal(c) Inter-regional(d) Home

2) Which of the following factors influence trade?

(a) The stage of development of a product (b) The relative price of factors of productions. (c) Government. **(d) All of the above.**

3) International trade differs from domestic trade because of

(a) Trade restrictions (b) Immobility of factors (c) Different government policies **(d) All the above**

4) In general, a primary reason why nations conduct international trade is because

(a) Some nations prefer to produce one thing while others produce another **(b) Resources are not equally distributed among all trading nations** (c) Trade enhances opportunities to accumulate profits (d) Interest rates are not identical in all trading nations

5) Which of the following is a modern theory of international trade?

(a) absolute cost (b) comparative cost **(c) Factor endowment theory** (d) none of these

6) Exchange rates are determined in

(a) money market **(b) foreign exchange market** (c) stock market (d) capital market

7) Exchange rate for currencies is determined by supply a!ld demand under the-system of

(a) Fixed exchange rate **(b) Flexible exchange rate** (c) Constant (d) Government regulated

8) Net export equals _______.

(a) Export x Import (b) Export + Import **(c) Export - Import** (d) Exports of services only

9) Who among the following enunciated the concept of single factoral terms of trade?

(a) Jacob Viner(b) G.S.Donens(c) Taussig(d) J.S.Mill

10) Terms of Trade of a country show __________.

(a) Ratio of goods exported and imported (b) Ratio of import duties **(c) Ratio of prices of exports and imports** (d) Both (a) and (c)

11) Favourable trade means value of exports are ________ Than that of imports.

(a) More(b) Less(c) More or Less(d) Not more than

12) If there is an imbalance in the trade balance (more imports than exports), it can be reduced by

(a) decreasing customs duties (b) increasing export duties **(c) stimulating exports** (d) stimulating imports

13) BOP includes

(a) visible items only (b) invisible items only **(c) both visible and invisible items** (d) merchandise trade only

14) Components of balance of payments of a country includes

(a) Current account (b) Official account (c) Capital account **(d) All of above**

15) In the case of BOT,

(a) Transactions of goods are recorded. (b) Transactions of both goods and services are recorded. (c) Both capital and financial accounts are included. (d) All of these

16) Tourism and travel are classified in which of balance of payments accounts?

(a) merchandise trade account **(b) services account** (c) unilateral transfers account (d) capital account

17) Cyclical disequilibrium in BOP occurs because of

(a) Different paths of business cycle. (b) The income elasticity of demand or' price elasticity of demand is different. (c) long-run changes in an economy **(d) Both (a) and (b)**

18) Which of the following is not an example of foreign direct investment?

(a) the construction of a new auto assembly plant overseas (b) the acquisition of an existing steel mill overseas **(c) the purchase of bonds or stock issued by a textile company overseas** (d) the creation of a wholly owned business firm overseas

19) Foreign direct investments not permitted in India

(a) Banking**(b) Automic energy**(c) Pharmaceutical(d) Insurance

20) Benefits ofFDI include, theoretically

(a) Boost in (b) Increase in the import (c) Increased **(d) All**

Economic Growth | and export of goods and services | employment and skill levels | **of these**

21) IMF stands for
(a) Indian Managing Fund (b) Indian's Marketing Fund **(c) International Monetary Fund** (d) International Marketing Fund

22) Absolute Cost Advantage was developed by
(a) Adam Smith (b) Ricardo (c) T.R.Hicks (d) Doltan

23) Comparative cost advantages was developed by
(a) Adam Smith **(b) Ricardo** (c) T.S.Mill (d) J.R.Hicks

24) International trade was developed by
(a) Adam Smith and Ricardo **(b) Eli Heckscher and Bertil Ohlin** (c) Ricardo and A.C. Pigou (d) Adam Smith and Ohlin

25) _______ includes both visible and invisible items.
(a) Balance of payment (b) Balance of Trade (c) Foreign Trade (d) None of these

26) _______ equals Export - Import
(a) Gross Import (b) Gross Export (c) Net Import **(d) Net Export**

27) _______ are determined in foreign exchange rate.
(a) Rate of interest **(b) Exchange rate** (c) Net Exports (d) All the above

28) _______ means value of exports is more than that of imports.
(a) Unfavorable trade (b) International trade (c) Favorable trade (d) External trade

29) ________ refers to the exchange of goods and services with the political and geographical boundaries of a nation.
(a) Internal Trade (b) External Trade (c) Foreign Trade (d) Global trade

30) Trade is of _____ types
(a) One **(b) Two** (c) Three (d) Four

31) The official reserve assets of a country include its_______.
(a) Gold stock (b) Shares (c) Debenture (d) General reserve

32) _________ is one of the types of BoP disequilibrium.
(a) Income terms of trade (b) Devaluation **(c) Structural** (d) FDI

33) __________ investment may also help increase competition.
(a) Gold **(b) Foreign** (c) Inter Country (d) Money

34) There are _______ major exchange rate system
(a) two (b) three (c) four (d) five

35) _________ refers to foreign currencies.
(a) BOT **(b) FOREX** (c) BOP (d) FUND

36) High _______ level is responsible for high imports and low exports
(a) Domestic (b) Domestic (c) Domestic (d) Domestic

price expenses profit earnings

37) Large __________ are driving out foreign investors.

(a) public debt(b) private debt(c) public revenue(d) private revenue

38) A country's _________ also determines the exchange rate.

(a) Terms of trade(b) Trade(c) Policy issue(d) Internal trade

39) The modern theory explains the phenomenon of international trade on the basis of __________.

(a) Labour theory of value (b) Factor endowment theory **(c) General theory of value** (d) Ricardo theory

40) Viner has devised another concept called ________.

(a) The single factoral terms of trade (b) Net Barter terms of trade (c) Gross Barter terms of trade (d) Internal trade

41) International economics first originated in ……………….on account of increasing importance of foreign trade in that part of the world

(a) Eastern Europe**(b) Western Europe**(c) North America(d) None

42) Who is not associated with those who shaped the subject matter of International Economics.

(a) F.W. Taussig(b) Haberler(c) BelaBalassa**(d) J.M. Keynes**

43) Which of the following is not a subject matter of economics?

(a) Pure Theory of Trade (b) International Cartels and Trade Blocs **(c) Fiscal Federalism** (d) International Financial and Trade Regulatory Institutions

44) Which of the following is not an another term used for Internal Trade?

(a) 'domestic trade' (b) 'home trade' **(c) 'external trade;** (d) 'intra-regional trade'.

45) Which of the following is not an another term used for International Trade?

(a) 'inter-home trade' (b) 'external trade' (c) 'foreign trade' (d) 'inter-regional trade'.

46) Mercantilism

(a) Is the philosophy of free international trade **(b) Was a system of export promotion and barriers to imports practiced by governments** (c) Was praised by Adam Smith in The Wealth of Nations (d) Both (a) and (c)

47) Who is the author of 'Principles of Political Economy and Taxation'?

(a) David Ricardo(b) J.S Mill(c) Marshall(d) Taussig

48) Find the missing flow of concept of H-O Theorem. Abundance of skilled labour → specialisation → ………?……..→ exchange for goods are services produced by countries with abundance of unskilled labour

(a) import **(b) export** (c) devaluation (d) factor endowment

49) The modern theory of international trade explains the causes for …………….?

(a) comparative cost difference (b) absolute cost difference (c) comparative cost similarities (d) absolute cost similarities

50) Which is of the following statement is modern theory of trade

(a) It presents a one factor (labour) model (b) It attributes the differences in the comparative costs to differences in the productive efficiency of workers in the two countries (c) the phenomenon of international trade on the basis of labour theory of value **(d) It presents a multi - factor (labour and capital) model**

51) The different concepts of terms of trade were classified by ……………?

(a) Gerald M.Meier (b) Morris D. Morris (c) John M. Keynes (d) Joseph A. Schumpeter

52) Find the incorrect representation. Net Barter Terms of TradeTn= (Px / Pm) x 100

(a) Tn = Net Barter Terms of Trade (b) Px = Index number of export prices (c) Pm = Index number of import prices **(d) Tn = Gross Barter Terms of Trade**

53) Find the correct representation. Gross Barter Terms of Trade, Tg= (Qm/Qx) x 100

(a) Qm = Index of import quantities (b) Qx = Index of net export quantities (c) Qm = Index of net import quantities (d) None of the above

54) The income terms of trade was given by ………………?

(a) G.S.Dorrance (b) J.S Mill (c) Marshall (d) Taussig

55) Identify the odd one out.

(a) IMF (b) IBRD (c) WTO **(d) RBI**

56) Match the items in the List – I with items in List – II. Select the correct answer from the code given below :

List – I	List – II
Absolute Advantage	Ray Vernon
Factor - proportions	Adam Smith
Comparative Advantage	Heckscher –Ohlin
International Product life cycle	David Ricardo

(a)				(b)				**(c)**				(d)			
I	II	III	IV	I	II	III	IV	**I**	**II**	**III**	**IV**	I	II	III	IV
3	2	1	4	2	4	1	3	**2**	**3**	**4**	**1**	1	2	3	4

57) Assertion (A) A country can gain from trade when it produces at relatively lower costs.
Reason (R) When a country enjoys absolute advantage in both goods, the country would specialize in the production and export of those goods which are relatively more advantageous
(a) Both (A) and (R) are true and (R) is the correct explanation of (A). **(b) Both (A) and (R) are true, but (R) is not the correct explanation of (A).** (c) (A) is true, but (R) is false. (d) (A) is false, but (R) is true.

58) Movements of goods (export and imports of commodities) are also known as…………
(a) invisible trade **(b) visible trade** (c) new trade (d) conventional trade

59) The principal items shown on the………………are exports of goods and services, transfer receipts in the form of gift etc.
(a) BoT side (b) debite side **(c) credit side** (d) BoP side

60) The principal items on the …………. include imports of goods and services, transfer payments to foreigners, lending to foreign countries.
(a) BoT side **(b) debite side** (c) credit side (d) BoP side

61) Find the odd one out with respect to components of BoP.
(a) The current account (b) The capital account (c) The official settlements account or official reserve assets account **(d) The export import account**

62) How many main types of BOP Disequilibrium are there?
(a) Three (b) Two (c) Five (d) Six

63) …………………………..in BOP occurs because of long-run and deep seated changes in an economy as it advances from one stage of growth to another
(a) The structural disequilibrium **(b) The secular disequilibrium** (c) The cyclical disequilibrium (d) The seasonal disequilibrium

64) Assertion (A) If the market forces of demand and supply are allowed to play freely, equilibrium will be automatically restored in course of time
Reason (R) Under the free exchange rate system, the automatic adjustments of the balance of payments can take place through changes in the variables like price, interest, income and capital flows.
(a) Both (A) and (R) are true and (R) is the (b) Both (A) and (R) are true, but (R) is not the (c) (A) is true, but (d) (A) is false, but

correct explanation of (A). correct explanation of (A). (R) is false. (R) is true.

65) Devaluation means deliberate reduction of the official rate at which……………….?

(a) domestic currency is exchanged for another currency (b) domestic currency is blocked for another currency (c) domestic import is exchanged for another import (d) none of the above

66) Find the incorrect one with respect to Indian rupee devaluation

(a) On 29th September, 1949 (b) On 6th June, 1966 (c) On 1st July, 1991 **(d) On 9st August, 1990**

67) Whose statement is this? "The equilibrium exchange rate is that rate, which over a certain period of time, keeps the balance of payments in equilibrium

(a) Gunnar Mirdal **(b) RagnerNurkse** (c) Schumpeter (d) Bertil Ohlin

68) ……………………………. means the entry of funds into a nation where foreigners deposit money in a nation's bank or make purchase in the stock and bond markets, sometimes for speculation.

(a) Foreign Government Investment **(b) Foreign Portfolio Investment** (c) Foreign Institutional Investment (d) Foreign Direct Investment

69) ………………is an investment in hedge funds, insurance companies, pension funds and mutual funds.

(a) Foreign Institutional Investment (b) Foreign Portfolio Investment (c) Foreign Institutional Investment (d) Foreign Direct Investment

70) Suppose the exchange rate between Indian Currency and US Dollar is Rs.1= $65.IfitchangestoRs.1=$55, the value of which currency increased and decreased?

(a) both currency value will increase (b) both currency value will decrease **(c) Indian currency value will increase and US Dollar Value will decrease** (d) Indian currency value will decrease and US Dollar Value will increase

71) Suppose a doctor from England is invited to diagnose the health status of a VIP in our State. The fees which we pay to the doctor are entered in to which account of the BOPs Account?

(a) The current account (b) The capital account (c) State account of expenses (d) The official settlements account or official reserve assets account

72) The trade balance of a country is represented by

(a) the difference between imports and exports (b) the total imports and exports (c) the report between imports and exports (d) the difference between income and expenditure

73) When there is a chronic imbalance in the trade balance (more imports than exports), it can theoretically be reduced by means of a package of tax measures

(a) decrease of customs duties **(b) increase of customs duties** (c) stimulating imports. (d) stimulating exports

74) A main advantage of specialization results from

(a) Economics of large scale production (b) The specializing country behaving as a monopoly (c) Smaller production runs resulting in lower unit costs (d) High wages paid to foreign workers

75) International trade in goods and services is sometimes used as a substitute for all of the following except

(a) International movements of capital. (b) International movements of labor. (c) International movements of technology **(d) Domestic production of different goods and services**

76) If a nation has an open economy it means that the nation

(a) Allows private ownership of capital (b) Has flexible exchange rates (c) Has fixed exchange rates **(d) Conducts trade with other countries**

77) International trade forces domestic firms to become more competitive in terms of

(a) The introduction of new products (b) Product design and quality (c) Product price **(d) All of the above**

78) The opportunity cost of one DVD in India is

Country	Tons of steel	DVDs
China	80	40
India	20	20

(a) One ton of steel (b) Two tons of steel (c) Three tons of steel (d) Four tons of steel

79) The opportunity cost of one DVD in China is

Country	Tons of steel	DVDs
China	80	40
India	20	20

(a) One-half ton (b) One ton of (c) One and one-half **(d) Two tons** of steel steel tons of steel **of steel**

80) According to the principle of absolute advantage; India should

Country	Tons of steel	DVDs
China	80	40
India	20	20

(a) Export steel (b) Export DVDs (c) Export steel and DVDs **(d) There is no basis for gainful specialization and trade**

81) According to the principle of comparative advantage

Country	Tons of steel	DVDs
China	80	40
India	20	20

(a) China should export steel (b) China should export steel and DVDs (c) India should export steel (d) India should export steel and DVDs

82) With international trade, what would be the maximum amount of steel that China would be willing to export to India in exchange for each DVD

Country	Tons of steel	DVDs
China	80	40
India	20	20

(a) One-half ton of steel (b) One ton of steel **(c) Two tons of steel** (d) Two and one-half tons of steel

83) With international trade, what would be the maximum number of DVDs that India would be willing to export to China in exchange for each ton of steel

Country	Tons of steel	DVDs
China	80	40
India	20	20

(a) One DVD (b) Two DVDs (c) Three DVDs (d) Four DVDs

84) The earliest statement of the principle of comparative advantage is associated with

(a) Adam Smith **(b) David Ricardo** (c) Eli Heckscher (d) Bertil Ohlin

85) If the international terms of trade settle at a level that is between each country's opportunity cost

(a) There is no basis for gainful trade for either country **(b) Both countries gain from trade** (c) Only one country gains from trade (d) One country gains and the other country loses from trade

86) The classical trade theories of Smith and Ricardo predict that

(a) Countries will completely specialize in the production of export goods.
(b) Considerable trade will occur between countries with different levels of technology
(c) Small countries could obtain all of the gains from trade when trading with large countries
(d) All of the above.

87) According to the classical theory of international trade:
(a) Only countries with low wages will export
(b) Only countries with high wages will import
(c) Countries with high wages will have higher prices
(d) All the above are false

88) In the classical model of Ricardo, the direction of trade is determined by:
(a) absolute advantage
(b) comparative advantage
(c) physical advantage
(d) which way the wind blows

89) Absolute advantage is determined by
(a) actual differences in labor productivity between countries
(b) relative differences in labor productivity between countries.
(c) both (a) and (b)
(d) neither (a) nor (b)

90) Comparative advantage is determined by:
(a) actual differences in labor productivity between countries.
(b) relative differences in labor productivity between countries
(c) both (a) and (b)
(d) neither (a) nor (b)

91) The Heckscher-Ohlin theory explains comparative advantage as the result of differences incountries':
(a) Economies of large-scale production.
(b) Relative abundance of various resources
(c) Relative costs of labor.
(d) Research and development expenditures.

92) The factor endowment model of international trade was developed by
(a) Adam Smith
(b) David Ricardo
(c) John Stuart Mill
(d) Eli Heckscher and Bertil Ohlin

93) According to the factor endowment model of Heckscher and Ohlin, countries heavily endowedwith land will:
(a) Devote excessive amounts of resources to agricultural production
(b) Devote insufficient amounts of resources to agricultural production.
(c) Export products that are land-intensiveImport products that are land-intensive
(d) Import products that are land-intensive

94) According to the Heckscher-Ohlin model, the source of comparative advantage is a country's:

(a) technology (b) advertising **(c) factor endowments** (d) both (a) and (c)

95) The Heckscher-Ohlin model rules out the classical model's basis for trade by assuming that________ is (are) identical between countries
(a) factor endowments (b) factor intensities **(c) technology** (d) opportunity costs

96) The comparative advantage model of Ricardo was based on
(a) intraindustry specialization and trade **(b) interindustry specialization and trade** (c) demand conditions underlying specialization and trade (d) income conditions underlying specialization and trade

97) The Heckscher-Ohlin theorem states that a country will have comparative advantage in the goodwhose production is relatively intensive in the ________ with which the country is relatively abundant
(a) tastes(b) technology**(c) factor/resource**(d) opportunity cost

98) The Heckscher-Ohlin assumes that _______ are identical between countries
(a) tastes and preferences (b) technology levels (c) factor endowments **(d) both (a) and (b)**

99) According to the Heckscher-Ohlin model
(a) everyone automatically gains from trade **(b) the gainers from trade outnumber the losers from trade** (c) the scarce factor necessarily gains from trade (d) none of the above

100) Assume that Country A is relatively abundant in labor and Country B is relatively abundant inland. Note that wages are the returns to labor and rents are the returns to land. According to thefactor price equalization theorem, once Country A begins specializing according to comparative advantage and trading with Country B.
(a) wages and rents should fall in Country A (b) wages and rents should rise in Country A **(c) wages should rise and rents should fall in Country A** (d) wages should fall and rents should rise in Country A

101) The most widely traded currency in the foreign exchange market is the
(a) euro(b) Chinese yuan(c) British pound**(d) U.S. dollar**

102) Which among the following are the major assumptions of Absolute advantage theory?
(a) There are two countries and two (b) Labour is the only factor of production (c) Labour is perfectly mobile within the **(d) All**

commodities and one country has absolute advantage in one commodity and the second country has advantage in another commodity

and labour is homogeneous, that means each unit of labour produces same level of output. Value of a commodity is measured in terms of its labour content

country but perfectly immobile between the countries. It means that workers are free to move between industries within the nation but migration to other countries is impossible.

the above

103) Which among the following is NOT an assumption of H-O Theorem

(a) There are two countries involved. Each country has two factors (labour and capital) and produce two commodities either labour intensively or capital intensively.

(b) There is no perfect competition in both commodity and factor markets. All production functions are hertogenious. Production function is subject to increasing or decreasing returns to scale.

(c) There are no transportation costs

(d) Factors are freely mobile within a country but immobile between countries

104) The foreign exchange rate is NOT

(a) The price of one currency expresses in terms of another.

(b) Rate at which of one commodity expresses in terms of another

(c) The value of one currency in terms of another

(d) Fixed for ever

105) Under a fixed exchange rate system, ___________ are official changes in the value of a country's currency relative to other currencies

(a) devaluation

(b) Depreciation and appreciation

(c) revaluation

(d) Both a and b.

106) Assertion (A): According to Adam Smith, the basis of international trade was absolute cost advantage

Reason (R): Trade between two countries would be mutually beneficial when one country produces a commodity at an absolute cost advantage over the other country which in turn produces another commodity at an absolute cost advantage over the first country.

(a) Both A and R are true and R is the correct explanation of A.

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

(c) A is true but R is false.

(d) A is false but R is true.

107) Assertion (A): According to HO theorem, a country can gain from trade when it produces at relatively lower costs

Reason (R): Even when a country enjoys absolute advantage in both goods, the country would specialize in the production and export of those goods which are relatively more advantageous.

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

108) Assertion (A): The classical theory argued that the basis for foreign trade was comparative cost difference and it considered only labour factor

Reason (R): But the modern theory of international trade explains the causes for such comparative cost difference

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

109) Assertion (A): International trade helps a country to export its surplus goods to other countries and secure a better market for it.

Reason (R): International trade doesn’t helps a country to import the goods which cannot be produced at all or can be produced at a higher cost.

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

110) Assertion (A): Viner has devised another concept called ‘‘the single factoral terms of trade’’ as an improvement upon the commodity terms of trade.

Reason (R): It represents the ratio of exportprice index to the import-price index adjusted for changes in the productivity of a country’s factors in the production of exports.

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

111) The economist who said that international trade was based upon the concept of absolute advantage was:

(a) David Ricardo **(b) Adam Smith** (c) J.S.Mill (d) Bertil Ohlin

112) In a portfolio investment

(a) investors are directly involved in
(b) as in direct investment, investors
(c) investors transfer the
(d) investors have no

managing the operations.	**export goods and services abroad.**	technology to local investors.	control over operations.

113) The balance on current account

I equals the absolute value of the balance on capital account.

II is financed by savings.

III is net grants minus remittances.

IV includes goods, services, and unilateral transfers.

(a) I and II only.(b) II and III only**(c) I and IV only**(d) None of the above

114) Use the following Table to answer the next three questions

TABLE 1 Comparative Costs of Textiles and Steel in India and Japan

	India	Japan
Textiles (price per meter)	Rs. 50	Y300
Steel (price per ton)	Rs. 200	Y400

The ratio of the price of steel to that of textiles is ________in Japan and _______ in India.

(a) 4:3; 4:1.(b) 3:4; 1:4(c) 0.75; 0.25(d) cannot be determined

115) India has a comparative cost advantage in

(a) textiles(b) steel(c) both of them(d) none of them

116) Japan has comparative cost in

(a) steel(b) textiles(c) both of them(d) cannot be determined

117) Assume a foreign exchange market with a flexible exchange system. Suppose the demand for a country's currency decreases. This results in a _______________ in its currency.

(a) depreciation(b) appreciation(c) devaluation(d) revaluation

118) If the value of a country's currency falls, what is the effect on exports and imports, assuming all else remains unchanged?

(a) Exports will fall, and imports will rise	(b) Exports and imports will both fall	**(c) Exports will rise, and imports will fall**	(d) Exports and imports will both rise

119) Match the correct codes

1	Mercantilism	i	Takes an usversus- them view of trade
2	Free Trade theories	ii	Absolute Advantage
3	Free Trade refined	iii	David Ricardo
4	Comparative Advantage	iv	Heckscher - Ohlin

(a) (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)	(b) (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)	(c) (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)	(d) (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

120) Match the correct codes

1	Absolute Advantage - Adam Smith	i	1966
2	Comparative Advantage - David Ricardo	ii	1776
3	Factor – proporations- Heckscher - Ohlin	iii	1817
4	International Product life cycle - Ray Vernon	iv	1919

(a) (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
(b) (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
(c) (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
(d) (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

121) Match the correct codes

1	Tff	i	(Qm/Qx) x 100
2	Tn	ii	(Px / Pm) Fx
3	Tg	iii	(Px / Pm) x 100
4	Tf	iv	(Px / Pm) (Fx / Fm)

(a) (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
(b) (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
(c) (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
(d) (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

122) Match the correct codes

1	The BoP is said to be balanced when the receipts (R) and payments (P) are just equal	i	R / P =1
2	When receipts exceed payments, the BoP is said to be favourable	ii	R / P > 1
3	When receipts are less than payments, the BoP is said to be unfavourable or adverse	iii	R / P < 1
4	BOP Disequilibrium	iv	R / P ≠1

(a) (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
(b) (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
(c) (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
(d) (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

123) Match the correct codes

1	Monetary measures	i	Import Duties
2	Export Promotion	ii	Foreign Loans
3	Import Control	iii	Abolition / reduction of duties
4	Miscellaneous Measures	iv	Monetary Contraction / Expansion

(a) (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
(b) (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
(c) (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
(d) (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

40 x 1 = 40

124) Internal Trade

Trade within the nation

125) External Trade

Trade between two countries

126) Subject Matter of International Trade
Taussig & Haberler
127) Financial Intuitions
IMF,IBRD & WTO
128) Absolute Cost Advantage
Adam Smith (1776)
129) Comparative cost advantage
Ricardo - 1817
130) Modern theory of International trade
Eli Heckscher and Bertil Ohlin
131) Balance of Trade
Visible Trade
132) Net Barter Terms of trade
Tn = $(P_x / P_m) \times 100$
133) Gross Barter Terms of Trade
Taussig
134) Income Terms of trade
G.S.Dorrance
135) The single Factoral Terms of Trade
Viner
136) Balance of Payments Disequilibrium
$R/P \neq 1$
137) Balance of Payment Equilibrium
$R/P=1$
138) Unfavorable Balance Balance
$R/P < 1$
139) Favorable Balance of payment
$R/P > 1$
140) FDI
Foreign Direct Investment
141) International Economic Organisation
IBRD
142) FOREX
Foreign Currency
143) Real Exchange rate
eP_f/P
144) Subject matter of international economics
Pure theory of trade
145) WTO

Trade

146) Powerful forces

International financial institution

147) Economic integration

Cartels

148) Policy Issues

Free Trade

149) Internal Trade

Geographical boundaries

150) Inter Regional Trade

Goods and services within a country

151) Adam Smith

1776

152) Foreign Trade

Trade between two or more countries

153) China

Ricardo

154) Theory of comparative cost

Production of cloth

155) Taxation published

Trade between two or more countries

156) Factor endowment theory

Heckscher and Ohlin

157) Export embody

Abundant factor

158) Scarce factor

Imports

159) Based on Ricardian Theory

Modern theory

160) Labour Cost

Unrealistic

161) Modern Theory

International Trade

162) Factor

Endowments

163) Classical Theory of International Trade

One factor (labour)

2 x 2 = 4

164) **Assertion (A)** : Trade is one of the powerful forces of economic integration.

Reason (R) : Trade helps the goods and services move easily from one country to another country.

(a) Both 'X and 'R' are true and R is the correctkexplanation to A

(b) Both 'X and 'R' are true but R is not the correct explanation to A

(c) A is true but R is false.

(d) A is False but R is true

Answer : Both W.and CR)are true but R is not the correct explanation to A

165) Assertion (A) : Price of a commodity is measured by the amount oflabour required to produce it.

Reason (R) : There is no transport cost.

(a) Both 'X and 'R' are true and R is the correct explanation to A

(b) Both 'X and 'R' are true but R is not the correct explanation to A

(c) A is true but R is false.

(d) A is false but R is true

Answer : Both 'A'.and 'R" are true but R is not the correct explanation to A

3 x 2 = 6

166) Subject matter of International Economics

The contributions of classical economists

(a) Adam Smith

(b) EW. Taussig

(c) J.S.Mill

(d) Heckscher-Ohlin

Answer : Heckscher-Ohlin

167) Terms of Trade:

(a) Net Barter Terms of trade

(b) Gross Barter Terms of trade

(c) The Single factoral Terms of trade

(d) Income terms of Trade

Answer : The Single factoral Terms of trade

168) (a)$T_n = (P_x / P_m)$ X 100

(b) $T_f= (P_x / P_m) F_x$

(c) $T_g = (Q_{rn} / Q_x)$ X 100

(d) $T_y= (P_x / P_m) Q_x$

Answer : $T_f= (P_x / P_m) F_x$

5 x 2 = 10

169)

(a)	$T_g=(Q_m/Q_x)X100$	-	Gross Barter terms of trade
(b)	$T_y= (P_x/P_m)Q_x$	-	Income terms of trade
(c)	$T_{ff}= (P_x/P_m)\ (F_x/F_m)$	-	Double factor terms of trade.
(d)	Tn =	-	Single factoral terms of trade

Answer : T_n = Single factoral terms of trade

170)

(a)	T_n	-	Net Barter terms of trade
(b)	P_x	-	Index number of export prices
(c)	P_m	-	Index number of import prices
(d)	Q_m	-	Index of export quantities

Answer : Q_m - Index of export quantities

171)

(a)	Secular	-	Disequilibrium
(b)	Monetary measures	-	Exchange control
(c)	Delibrate measure	-	Foreign loans
(d)	Export control	-	Import Quotas

Answer : Export control- Import Quotas

172)

(a)	Monetary measures	-	Devaluation
(b)	Export promotion	-	Reduction of duties
(c)	Miscellaneous measures	-	Tourism development
(d)	Trade measure	-	Automatic correction

Answer : Automatic correction

173)

(a)	Read exchange rate	-	eP_f/P
(b)	Flexible exchange rate	-	Floating exchange rate
(c)	Income terms of trade	-	$T_g = (Q_{rn}/Q_s) \times 100$
(d)	Net barter terms of trade	-	Taussingc

Answer : $T_g = (Q_{rn}/Q_s) \times 100$

5 x 1 = 5

174)

(a)	The classical theory	-	Phenomenon of International Trade
(b)	Ricardo	-	Endowment Theory
(c)	Factor proporations	-	Ray Vernon
(d)	Iwternatimnal pkoduct life cycle	-	Ohlin

Answer : The classical theory - Phenomenon of International Trade

175)

(a)	India	-	An absolute advantage in the production of wheat
(b)	China	-	Rice
(c)	Labours	-	Not e ual efficiency
(d)	Ricardo's Theory	-	Factor endowment theory

Answer : India - An absolute advantage in the production of wheat

176)

(a)	Export	-	Surplus goods

(b)	Efficient Production	-	Gains from International Trade
(c)	Income terms of trade	-	$Tg=Q_m/Q_x X100$
(d)	G.S. Dorrance	-	Gross Barter terms of trade

Answer : Export- Surplus goods

177)

(a)	Visible Trade	-	200
(b)	Income terms of trade	-	G.S. Dorrance
(c)	'T_n' is greater than	-	300
(d)	Components of BoPs	-	Official Agencies

Answer : Income terms of trade -G. Dorran

178)

(a)	Principal item of Principal item of	-	Debit side
(b)	Visible trade	-	Index of cost
(c)	Official reserve	-	Gold stock
(d)	P_m	-	Net Barter Terms of trade

Answer : Offici reserve - Gold stock

8 x 2 = 16

179) (i) FDI is an important factor in global economy.

(ii) Foreign trade and FDI are not closely related.

(a) Both (i) and (ii) are true

(b) Both (i) and (ii) are false

(c) (i) true but (ii) is false

(d) (i) is false but (ii) is true

Answer : (I) true but (ii) is false

180) **Exchange Control:**

(I) Exchange control means the state intervention in the forex market.

(ii) It is popular method employed to influence the balance of payments position of a country.

(a) Both (i) and (ii) are true

(b) Both (i) and (ii) are false

(c) (i) is true but (ii) is false

(d) (I) is false but (ii) is true

Answer : (a) Both (i) and (ii) are true

181) Gains from International Trade

(I) Improvement in the techniques of production

(ii) Decreased Production.

(a) Both (i) and (ii) are true

(b) Both (i) and (ii) are false

(c) (i) is true but (ii) is false

(d) (i) is-false but (ii) is true

Answer : (i) is t 'ue but (ii) is false

182) (I) Internal trade refers to the exchange of goods and services within political and geographical boundaries of a nation.
(ii) International trade also known as domestic 'trade' -
(a) Both (i) and (ii) are true
(b) Both (i) and (ii) are false
(c) (i) is true but (ii) is false
(d) (i) is false but (ii) is true
Answer : Both ( ) and (ii) are true

183) (i) Adam Smith (1776) developed the theory of absolute cost advantage.
(ii) There is only one common currency.
(a) Both (i) and (ii) are false
(b) (i) is true but (ii) is false
(c) Both (i) and (ii) are true
(d) (i) is false but (ii) is true
Answer : Both (i) and (ii) are true

184) (i) David Ricardo was formulated as an explicit and precise theory.
(ii) There is difference in political affiliations, customs and habits of the people and7government policies.
(a) (i) is false but (ii) is true
(b) (i) is true but (ii) is false
(c) Both (i) and (ii) are false
(d) Both (i) and (ii) are true
Answer : (i) is true but (ii) is false

185) (i) International Economics is a specialized field of economics.
(ii) The subject matter of international economics include small number of segments.
(a) Both (i) and (ii) are false
(b) Both (i) and (ii) are true
(c) (i) is false but (ii) is true
(d) (i) is true but (ii) is false
Answer : (i) is t ue but (ii) is false

186) (i) International Economics evolved from a complicated theory of international trade.
(ii) International Economics studies the entire range of international economic transaction.
(a) Both (i) and (ii) are false

(b) (i) is true but (ii) is false
(c) Both (i) and (ii) are true
(d) (i) is false but (ii) is true
Answer : (i) is falsse but (ii) is true

50 x 2 = 100

187) What is International Economics?
Answer : International Economics is that branch of economics which is concerned with the exchange of goods and services between two or more countries.

188) Define International trade.
Answer : International Trade is between two or more countries and it is a trade beyond the geographical and political boundaries.

189) State any two merits of trade.
Answer : (I) Trade is one of the powerful forces of economic integration.
(II) It brings foreign exchange to our country.
(a) Internal Trade and
(b) International Trade.

190) What is the main difference between Adam Smith and Ricardo with regard to the emergence of foreign trade?
Answer : (i) According to Adam Smith, the basis of international trade was absolute cost advantage.
(ii) Trade between two countries would be mutually beneficial when one country produces a commodity at an absolute cost advantage over the other country.
(iii) According to Ricardo a country can gain from trade when it produces at relatively lower costs.
(iv) Even when a country enjoys absolute advantage in both goods, the country would specialize in the production and export of those goods which are relatively more advantageous.

191) Define Terms of Trade.
Answer : The gains from international trade depend upon the terms of trade which refers to the ratio of export prices to import prices.

192) What do you mean by Balance of Payments?
Answer : Balance of Payments (BoP) is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.

193) What is meant by Exchange Rate?
Answer : The rate at which one currency is exchanged for another currency.

194) Define Comparative Cost Advantage.

Answer : According to Ricardo a country can gain from trade when it produces at relatively lower costs. Even when a country enjoys absolute advantage in both goods, the country would specialize inthe production and export of those goods which are relatively more advantageous

195) List out the types of BOP Disequilibrium.

Answer : There are three main types of BOP

(a) Cyclical Disequilibrium

(b) Secular Disequilibrium

(c) Structural Disequilibrium

196) What do you mean by exchange control?

Answer : (i) Exchange control means the state intervention in the forex market.

(ii) It is a popular method employed to influence the balance of payment position

of a country.

197) What is an import control?

Answer : (i) Imports may be controlled by imposing or enhancing import duties.

(ii) Restricting imports through import quotes.

(iii) Licensing and even prohibiting altogether the import of certain non essential items but this would encourage smuggling

198) What is Foreign Exchange?

Answer : (i) FOREX refers to foreign currencies.

(ii) It is the mechanism through which payments are effected between two countries having different currency systems.

199) What is FDI?

Answer : FDI means an investment in a foreign country that involves some degree of control and participation in management

200) Mention the subject matter of international economics

Answer : 1. Pure Theory of Trade

2. Policy Issues

3. International Cartels and Trade Blocs

4. International Financial and Trade Regulatory Institutions

201) What are the types Trade?

Answer : a) Internal Trade and

b) International Trade.

202) What are the other names of internal trade?

Answer : (i) Domestic trade

(ii) Home trade

(iii) Intra-regional trade

203) What are the other names of international trade?

Answer : 1. External trade

2. Foreign trade

3. Inter-regional trade

204) What is the view of Mercantilism about trade?

Answer : (i) Takes an us-versus - them view of trade

(ii) Other country's gain is our country's loss

205) What are the Free Trade theories ?

Answer : (i) Absolute Advantage (Adam Smith, 1776)

(ii) Comparative Advantage (David Ricardo, 1817)

206) List different approaches of Classical Trade Theories

Answer : (i) Mercantilism (pre - 16th century)

(ii) Free Trade theories

(iii) Free Trade refined

207) List the assumption of Adam smith trade theory.

Answer : 1. There are two countries and two commodities (2 x 2 model).

2. Labour is the only factor of production.

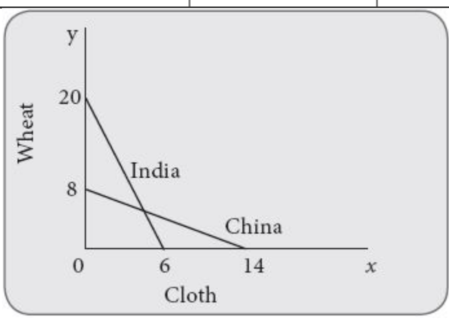
3. Labour units are homogeneous.

4. The cost or price of a commodity is measured by the amount of labour required to produce it.

5. There is no transport cost.

208) Draw a diagram for the given data of absolute advantage

Particulars	India	America
Supply of Labour	50	24
Supply of Capital	40	30
Capital-Labour Ratio	40/50=0.8	30/24=1.25

Answer : 

209) What are the criticisms of Ricardian theory?

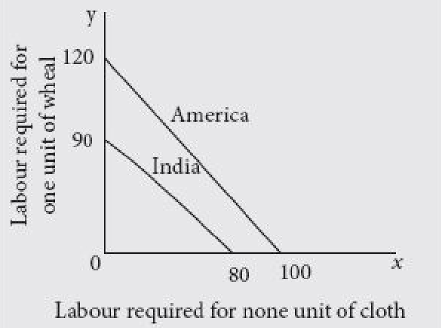
Answer : 1. Labour cost is a small portion of the total cost. Hence, theory based on labour cost is unrealistic

2. Labourers in different countries are not equal in efficiency.

210) Draw a diagram for the given data of Ricardo's Theory of Comparative Cost Advantage

Answer :

Country	Cloth	Wheat	Domestic Exchange ratios
America	100	120	1 wheat = 1.2 cloth
India	90	80	1 wheat = 0.88cloth



Note: Slopers are not equal

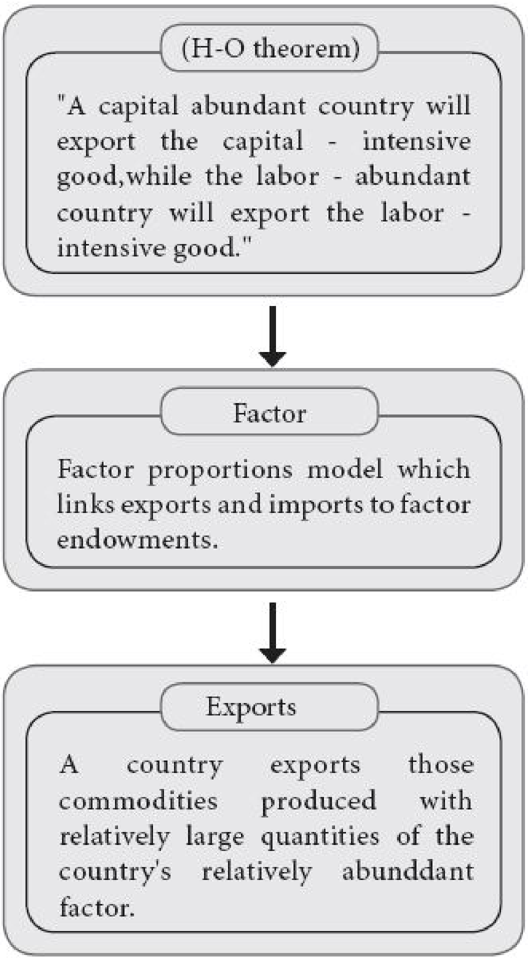
211) How Modern theory of International Trade attributes international differences in comparative costs to?

Answer : i) difference in the endowments of factors of production between countries, and

ii) differences in the factor proportions required in production.

212) Draw the chart depicting H-O Theorem

Answer :



213) What is “The Single Factoral Terms of Trade”?

Answer : (i) Viner has devised another concept called ‘‘the single factoral terms of trade’’ as an improvement upon the commodity terms of trade.

(ii) It represents the ratio of exportprice index to the import-price index

adjusted for changes in the productivity of a country's factors in the production of exports
(iii) Symbolically, it can be stated as
Tf = (Px / Pm) Fx

214) Double Factoral Terms of Trade
Answer : Viner constructed another index called ''Double factoral terms of Trade''. It is expressed as
Tff = (Px / Pm) (Fx / Fm)

215) Define - Favourable BOT
Answer : When the total value of commodity exports of a country exceeds the total value of commodity imports of that country, it is said that the country has a 'favourable' balance of trade.

216) Define - Unfavourable BOT
Answer : If total value of commodity exports of a country is less than the total value of commodity imports of that country, that country is said to have an 'unfavourable'balance of trade

217) Write a brief note on The Official Reserve Assets Account
Answer : Official reserve transactions consist of movements of international reserves by governments and official agencies to accommodate imbalances arising from the current and capital accounts

218) Write the Balance of Payment (BOP) Account Chart
Answer : Credit (Receipts) – Debit (Payments) = Balance [Deficit (-), Surplus (+)]

219) What is Favourable BoP?
Answer : When receipts exceed payments, the BoP is said to be favourable. That is,
R / P > 1

220) What is Unfavourable BOP?
Answer : When receipts are less than payments, the BoP is said to be unfavourable or adverse. That is
R / P < 1

221) Write a short note on Automatic Correction.
Answer : (i) If the market forces of demand and supply are allowed to play freely, equilibrium will be automatically restored in course of time.
(ii) Under the free exchange rate system, the automatic adjustments of the balance of payments can take place through changes in the variables like price, interest, income and capital flows

222) List the Monetary measures for Correction of Balance of payment Disequilibrium.
Answer : 1. Monetary Contraction / Expansion

2. Devaluation/ revaluation
3. Exchange Control

223) Mention the Import Control measures for Correction of Balance of payment Disequilibrium.

Answer : 1. Import Duties
2. Import Quotas
3. Import Prohibition

224) Mention the Export Promotion measures for Correction of Balance of payment Disequilibrium

Answer : 1. Abolition / reduction of duties
2. Export Subsidies
3. Export Incentives

225) Mention the dates of devaluation of Indian Rupee.

Answer : Indian rupee was devalued three times since 1947.
1. On 29th September, 1949.
2. On 6th June, 1966
3. On 1st July, 1991

226) FOREX – Define

Answer : “FOREX is the system or process of converting one national currency into another, and of transferring money from one country to another”.

227) Define “Equilibrium Exchange Rate”

Answer : “The equilibrium exchange rate is that rate, which over a certain period of time, keeps the balance of payments in equilibrium”.

228) What are the Fixed Exchange Rates?

Answer : (i) Countries following the fixed exchange rate (also known as stable exchange rate and pegged exchange rate) system agree to keep their currencies at a fixed rate as determined by the Government.
(ii) Under the gold standard, the value of currencies was fixed in terms of gold

229) What is Flexible Exchange Rate?

Answer : Under the flexible exchange rate (also known as floating exchange rate) system, exchange rates are freely determined in an open market by market forces of demand and supply.

230) List the Types of Exchange Rates Exchange rates

Answer : (a) Nominal exchange rate
(b) Real exchange rate
(c) Nominal Effective Exchange Rate (NEER) and
(d) Real Effective Exchange Rate (REER)

231) What is Foreign Portfolio Investment (FPI)

Answer : Foreign Portfolio Investment (FPI) means the entry of funds into a nation where foreigners deposit money in a nation's bank or make purchase in the stock and bond markets, sometimes for speculation. FPI is part of capital account of BoP.

232) Mention the Similarities of Internal and International Trade.

Answer : (i) Specialization is the basis of both, domestic as well as foreign trade

(ii) Both have same requisites, viz., two parties, two commodities and determination of relativeprices

(iii) Gains or benefits, is the primary concern of the regions or nations involved in trade

233) What is Foreign Institutional Investment (FII)?

Answer : (i) Foreign Institutional Investment (FII) is an investment in hedge funds, insurance companies, pension funds and mutual funds.

(ii) Foreign institutional investment is a common term in the financial sector of India

(iii) For example, a mutual fund in the United States can make investment in an Indiabased company

234) Write the latest trend of FDI in India?

Answer : (i) FDI inflow in India has increased from $ 97 million in 1990-91 to $ 5,535 million in 2004- 2005

(ii) It amounted to $ 32,955 million in 2011- 2012.

(iii) UNCTAD's World Investment Report 2018 reveals that FDI to India declined to $ 40 billion in 2017 from $ 44 billion in 2016.

235) List the sectors which are not allowed for FDI in India

Answer : FDI is not permitted in the industrial sectors like,

(i) Arms and ammunition

(ii) atomic energy,

(iii) railways,

(iv) coal and lignite and

(v) mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds copper etc.,

236) What is the significant difference between FDI and FII?

Answer : (i) Foreign Direct Investment or FDI is defined as the investment made by a company in the company situated outside the country.

(ii) Foreign Institutional Investor or FII is when investors, most commonly in the form of institutions that invest in the country's financial market

22 x 3 = 66

237) Describe the subject matter of International Economics.

Answer : The subject matter of International Economics are,
(i) Pure Theory of Trade: This component explains the causes for foreign trade, composition, direction and volume of trade, determination of the terms of trade and exchange rate, issues related to balance of trade and balance of payments.
(ii) Policy Issues: Under this part, policy issues such as free trade vs. protection, methods of regulating trade, capital and technology flows, use of taxation, subsidies and dumping, exchange control and convertibility, foreign aid, external borrowings and foreign direct investment, measures of correcting disequilibrium in the balance of payments etc are covered.
(iii) International Cartels and Trade Blocs: This part deals with the economic integration in the form ofinternational cartels, customs unions, monetary unions; trade blocs, economic unions and the like. It also discusses the operation of Multi National Corporations (MNCs).
iv) International Financial and Trade Regulatory Institutions: The financial institutions like International Monetary Fund IMF, IBRD, WTO etc which influence international economic transactions and relations shail also be the part ofinternational economics.

238) Compare the Classical Theory of international trade with Modern Theory of International trade.

Answer :

S.No	**Classical Theory of International Trade**	**Modern Theory of International Trade**
1	The Classical Theory explains the phenomenon of International Trade on the basis of labour theory of value.	The Modern theory explains the phenomenon of international trade on the basis of general theory of value.
2	Presents factor (labour)	Presents a multi factor (Labour and Capital)
3	It attributes the differences in the comparative in the productive efficiency of workers.	It attributes the difference in comparative costs to the difference in factor endowments

239) Explain the Net Barter Terms of Trade and Gross Barter Terms of Trade.

Answer : (I)Gross Barter Terms of Trade.
(i) This type was developed by Taussing in 1927.
(ii) The ratio between the prices of exports and of imports is called· the «net barter terms of trade'.
(iii) It is named by Viner as the 'commodity terms of Trade.
(iv) Itisexpressedas: $Tn=(P_x/P_m)x100$

(II) Gross arter erms of Trade:
(i) This was developed by Taussig in 1927 as an improvement over the net terms of trade.
(ii) It is an index of relationship between total physical quantity of imports and exports.
(iii) Tg-(Q_m/Q_x)x100

240) Distinguish between Balance of Trade and Balance of Payments.

Answer :

S.No	**Balance of Trade (BOT)**	**Balance of Payments (BOP)**
1	Balance of Trade (BOT) refers to the value of a country's exports of commodities and total value of imports of commodities.	BOP is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.
2	Only export and import of commodities are include in the statement of Balance of Trade of a country.	When a payment is received from a foreign country it is a credit transaction.
3	Movements of goods are also known as "Visible Trade".	While a payment is made to a foreign country, it is a debit transaction.

241) What are import quotas?

Answer : (i) A quota is a limit on the total Quantity of a product that can be supplied to a market.
(ii) An import quota therefore 'restricts the supply of an imported product.
(iii) By cutting market supply the price of the imported product is likely to rise.
(iv) Black market may develop.

242) Write a brief note on flexible exchange rate.

Answer : (i) The flexible exchange rate is also known as floating exchange rate.
(ii) Exchange rates are freely determined in an open market by market forces of demand and supply. (iii) Market prices that vary day to day.

243) State the objectives of Foreign Direct Investment.

Answer : FDI has the following objectives.
(i) Sales Expansion
(ii) Acquisition of resources
(iii) Diversification
(iv) Minimization of competitive risk

244) What are the assumptions of Absolute Cost Advantages?

Answer : (i) There are two countries and two commodities (2 X 2) model.
(ii) Labour is the only factor of production.
(iii) Labour units are homogeneous.
(iv) Price of commodity is measured by the amount oflabour required to produce it.

245) List out the limitations of Modern Theory of International Trade?
Answer : (i) Factor endowment of a country may change over time.
(ii) The efficiency of the same factor may differ in the two countries.
For example : America may be labour scarce in terms of no. of workers

246) What are the general advantages of International Trade?
Answer : (i) Availability of variety of goods for consumption.
(ii) Generation of more employment opportunities.
(iii) Industrialization of backward nations.
(iv) Improvement in relationship among countries.
(v) Division of Labour and specialisation.
(vi) Expansion in Transport Facilities

247) Write the measures to correct BOP Disequilibrium.
Answer : (i) Depreciation
(ii) Devaluation
(iii) Import Control
(iv) Export Promotion
(v) Exchange Controls
(vi) Production of Import Substitutes
(vii) Monetary Policy
(viii) Capital Import

248) What are the Determinants of Exchange Rates?
Answer : Factors determining exchange rates are,
(i) Differentials in Inflation
(ii) Differential in Interest rates
(iii) Current Account Deficits
(i) Public Debt
(v) Terms of Trade
(vi) Political and Economic Stability
(vii) Recession
(viii) Speculation

249) What are the major sectors benefited from FDI in India?
Answer : (i), Financial Sector (Banking and Non Banking)
(ii) Insurance
(iii) Telecommunication

(iv) Hospitality and Tourism
(v) Pharmaceuticals
(vi) Software and Information Technology

250) List the assumption of Comparative advantage theory of international trade.

Answer : 1. There are only two nations and two commodities (2x2 model)
2. Labour is the only element of cost of production.
3. All labourers are of equal efficiency
4. Labour is perfectly mobile within the country but perfectly immobile between countries.
5. Production is subject to the law of constant returns
6. Foreign trade is free from all barriers.
7. No change in technology.
8. No transport cost.
9. Perfect competition.
10. Full employment.
11. No government intervention

251) General Utility Functions of RBI – Discuss.

Answer :

BASIS FOR COMPARISON	CURRENT ACCOUNT	CAPITAL ACCOUNT
Meaning	An account which records the export and import of merchandise and unilateral transfers done during the year by a nation are known as Current Account.	An account which records the trading of foreign assets and liabilities during the year by a country is known as Capital Account
Reflects	Net Income of the country.	Net change in ownership in national assets.
Deals with	Receipt and disbursements of cash and noncapital items.	Sources and application of capital.
Components	Trade in goods and services, investment income, unrequited transfers.	Foreign Direct Investment, Portfolio Investment, Government loans etc.

252) List the "Role of a state" according to mercantilists?

Answer : i. Stimulate exports and export more goods than import. This approach will provide the gold inflow;
ii. Restrict the importation of goods, especially luxury goods that will provide export balance of trade;
iii. Forbid the production of the final products in its colonies;
iv. Forbid the exportation of raw materials from the parent states to the colonies and allow free importation of raw materials, which are not obtained within the country;
v. Stimulate an export of mainly cheap raw commodities from the colonies;
vi. Forbid any trade of its colonies with other countries, except the parent state, which can resell the colonial goods abroad by itself.

253) Mention the difference between FDI and FII

Answer :

BASIS FOR COMPARISON	FDI	FII
Meaning	When a company situated in one country makes an investment in a company situated abroad, it is known as FDI.	FII is when foreign companies make investments in the stock market of a country.
Entry and Exit	Difficult	Easy
What it brings?	Long term capital	Long/Short term capital
Transfer of	Funds, resources, technology, strategies, knowhow etc.	Funds only.
Economic Growth	Yes	No
Consequences	Increase in country's Gross Domestic Product (GDP).	Increase in capital of the country.
Target	Specific Company	No such target, investment flows into the financial market.
Control over a company	Yes	No

254) Mention the difference between FDI and FPI

Answer :

BASIS FOR COMPARISON	REPO RATE	REVERSE REPO RATE

Meaning	FDI refers to the investment made by the foreign investors to obtain a substantial interest in the enterprise located in a different country.	When an international investor, invests in the passive holdings of an enterprise of another country, i.e. investment in the financial asset, it is known as FPI
Degree of control	High	Very less
Term	Long term	Short term
Investment in	Physical assets	Financial assets
Entry and exit	Difficult	Relatively easy.
Results in	Transfer of funds, technology and other resources	Capital inflows

255) Write a brief note on HO - Factor endowment model theorem

Answer : (i) Developed by Heckscher and Ohlin

(ii) Countries with a relative factor abundance can specialise and trade

(iii) Abundance of skilled labour → specialisation → export → exchange for goods are services produced by countries with abundance of unskilled labour

(iv) Exports embody the abundant factor

(v) Imports embody the scarce factor

(vi) Assumes a high degree of factor mobility

256) What are the assumption of Modern theory international trade?

Answer : 1. There are two countries, two commodities and two factors. (2x2x2 model)

2. Countries differ in factor endowments.

3. Commodities are categorized in terms of factor intensity.

4. Countries use same production technology.

5. Countries have identical demand conditions.

6. There is perfect competition in both product and factor markets in both the countries

257) Discuss the elements of Automatic Correction in trade disequilibrium.

Answer : 1. Price Adjustments

As a result of foreign exchange outflow from a deficit country to a surplus country, there will be a fall in the money supply in the deficit country and increase in the money supply in the surplus country.

2. Interest Rate Adjustments

The contraction or expansion of money supply resulting from the BoP deficit or surplus leads to a rise or fall in the interest rates. A rise in interest rate in the deficit country will encourage investors to withdraw their funds from abroad and invest in their home country.

3. Income Adjustments

A nation with payments surplus will experience rising income which will increase imports and thereafter equilibrium is restored in Balance of Payments.

4. Capital Flows

Changes in the interest rate consequent to the BoP disequilibrium will encourage capital flows from the surplus nations to deficit nations helping restoration of the BoP equilibrium.

258) State the Correction of Balance of payment Disequilibrium - Trade Measures.

Answer : Trade measures include measures to promote exports and to reduce imports.

1. Export Promotion

Exports may be encouraged by

i) reducing or abolishing export duties,

ii) providing export subsidy,

iii) encouraging export production by giving monetary, fiscal, physical and institutional incentives. (Then local people and domestic industries would suffer)

2. Import Control

Imports may be controlled by

i) imposing or enhancing import duties,

ii) restricting imports through import quotas,

iii) licensing and even prohibiting altogether the import of certain non-essential items. But this would encourage smuggling.

19 x 5 = 95

259) Discuss the differences between Internal Trade and International Trade.

Answer :

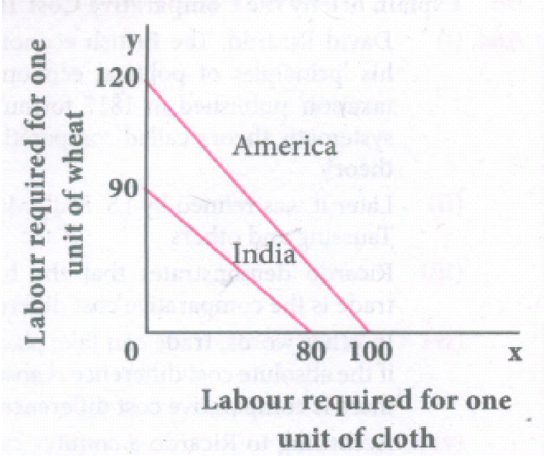
S.No	Internal Trade	International Trade
1	Trade takes place between different individual and firms within the same.	Trade takes place between different individual and firms in different countries.
2	Labour and capital move freely from one region to another.	Labour and capital do not move easily from one nation to another.
3	There is only one common currency.	There are different currencies.

S.No	Internal Trade	International Trade
4	There will be free flow of goods and services since there are no restrictions.	Goods and services do not easily move from one country to another since there are a number of restrictions.
5	The physical and geographical conditions of a country are more or less similar.	There are differences in physical and geographical conditions of the two countries.
6	Trade and financial regulations are more or less the same.	Trade and financial regulations such as interest rate, trade laws differ between countries.
7	There is no difference in political affiliations, customs and habits of the people and government policies.	Differences are pronounced in political affiliations, habits and customs of the people and government policies.

260) Explain briefly the Comparative Cost Theory.

Answer : (i) David Ricardo, The British economist in his 'principles of political economy and taxation' published in 1817 formulated a systematic theory called comparative cost theory.
(ii) Later it was refined by J.S. Mill, Marshall, Taussing and others.
(iii) Ricardo demonstrates that the basis of trade is the comparative cost difference.
(iv) In other words, trade can take place even if the absolute cost difference is absent but there is comparative cost difference.
(v) According to Ricardo a country can gain from trade when it produces at relatively lower costs. (vi) When a country enjoys absolute advantage in both goods the country would specialize in the production and export of those goods which are relatively more advantages.
Assumptions:
(i) There are only two nations.
(ii) Labour is the only element of cost of production.
(iii) All labourers are of equal efficiency.
(iv) No transport cost.
(v) Perfect competition.
(vi) Full employment.
(vii) No government intervention.
Illustration:
Ricardo's theory of comparative cost can be explained with a hypothetical example.
Comparative Cost Advantage:

Country	Cloch	Wheat	Domestic Exchange Ratios
America	100	120	1 Wheat = 1.2 Cloth
India	90	80	1 Wheat = 0.88 Cloth

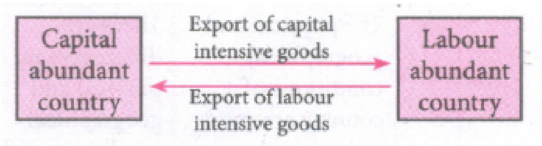


(i) It is evident from the example that India has an absolute advantage in production of both cloth and wheat.
(ii) In trade, India can get 1 unit of cloth and 1 unit of wheat by using its 160 labour units.
(iii) In the absence of trade, for getting this benefit, India will have to use 170 units of labour.
(iv) America also gains from this trade.
(v) Otherwise, America will have to use 120 units of labour for getting 1 unit of cloth and 1 unit of wheat.
Criticisms:
(i) Labour cost is a small portion of the total cost.
(ii) Labourers in different countries are not equal in efficiency.

261) Discuss the Modern Theory of International Trade.

Answer : Introduction:
(i) The modern theory of international trade was developed by Swedish economist Eli Heckscher and his student Bertil Ohlin in 1919.
(ii) This model was based on the Ricardian theory of international trade.
(iii) This theory says that the basis for international trade is the difference in factor endowments.
(iv) That is otherwise called as Factor endowment theory.
TheTheory:
(i) The classical theory argued that the basis for foreign trade was comparative cost difference and its labour factor.
(ii) But the modern theory of international trade explains the causes for such comparative cost difference.
Differences in comparative cost:
(i) Difference in the endowments of factors of production between countries.
(ii) Differences in the factor proportions required in production.

Assumptions:
(i) There are two countries (2 x 2 x 2 model)
(ii) Differ in factor endowments,
(iii) Commodities are categorized in terms of factor intensity.
(iv) Same production technology.
(v) There is perfect competition in both product and factor markets.
Explanation:
According to Heckscher - Ohlin, a capital abundant country will export the capital intensive goods while the labour abundant country will export the labour intensive goods. The following diagram illustrates the pattern of word trade.



Limitation:
(i) Factor endowment of a country may change over time.
(ii) The efficiency of the same factor (say labour) may differ in the two countries.

262) Explain the types of Terms of Trade given by Viner.
Answer : The single factoral terms of trade:
(i) Viner has devised another concept called the Single Factoral Terms of Trade.
(ii) It an improvement upon the Commodity . Terms of Trade.
(iii) It represents the ratio of export price index to the import price index adjusted for changes in the productivity of a country factors in the production of exports.
$TF = (P_X/P_M)\ F_x$
$T_F$stands for single factoral.
F_x stands for productivity in exports.
Double Factoral Terms of Trade:
(i) Viner constructed another index called double factoral terms of trade.
$T_{FF}= (P_X/P_M)\ (F_x/F_M)$
(ii) Which takes into account the productivity in country's exports, as well as the productivity of foreign factors.
(iii) FM represents import index.

263) Bring out the components of balance of payments account.
Answer : Components of BOPs are divided into three categories. They are,
(a) The Current Account
(b) The Capital Account and
(c) The Official Settlements Accounts or Official Reserve Assets Account.

(a) The Current Account:
(i) It includes all international trade transaction of goods and services.
(ii) It is also includes international unilateral transfers.
(b) The Capital Account:
(i) Financial transactions consisting of direct investment and purchases of interest bearing financial instruments.
(ii) They includes non interest bearing demand deposits and gold.
(c) The Official eserve Assets Account:
(i) Official Reserve Transactions consist of movements of international reserves by Government
(ii) Official agencies also accommodate in balance arising from the current and capital accounts. (iii) The official reserve assets of a country include its gold stock, SDRs &IMF etc.
Balance of payment (BOP) Account Chart
Credit (Receipts) - Debit (Payments) = Balance [Deficit (-), Surplus (+)]
[Deficit if Debit > Credit]

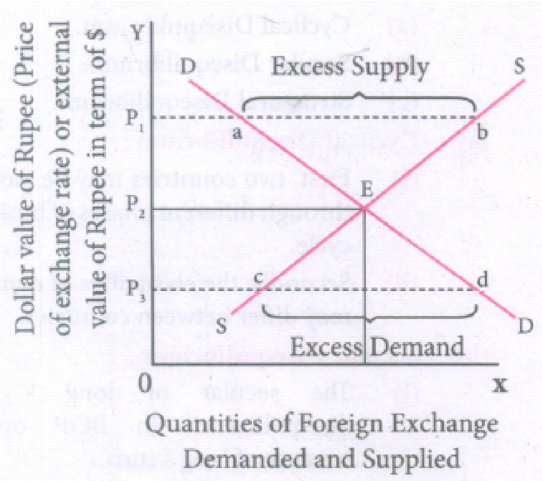
264) Discuss the various types of disequilibrium in the balance of payments.

Answer : Types BOP Disequilibrium :
(i) There are three main types of BOP Disequilibrium.
(ii) They are discussed below.
(a) Cyclical Disequilibrium.
(b) Secular Disequilibrium.
(c) Structural Disequilibrium.
(a) Cyclical Disequilibrium:
(i) First, two countries may be passing through different phases of business cycle.
(ii) Secondly, the elasticities of demand may differ between countries.
(b) 'Secular Disequilibrium:
(i) The secular or long run disequilibrium in BOP occurs because of long - run.
(ii) In the initial stages of development domestic investment exceeds domestic savings and imports exceed exports, as it happens in India since 1951.
(c) Structural Disequilibrium:
(i) Structural changes in the economy may also cause balance of payments disequilibrium.
(ii) Structural changes include development of alternative sources of supply, development of better substitutes exhaustion of productive resources or changes in transport routes and costs.

265) How the Rate of Exchange is determined? Illustrate.

Answer : Definition of Equilibrium Exchange Rate.

The equilibrium exchange rate is that rate which over a certain period of time, keeps the balance of payments in equilibrium.
Determination of Equilibrium Exchange Rate.
(i) The equilibrium rate of exchange is determined in the foreign exchange market in accordance with the general theory of value.
(ii) The equilibrium determined in the interaction of the forces of demand and supply.
(iii) Thus, the rate of exchange is determined at the point where demand for forex is equal to the supply of forex.



Explanation:
(i) Y axis represents exchange rate.
(ii) X axis represents demand and supply at forex.
(iii) E is the point of equilibrium where DD interests SS.
(iv) The exchange rate is P_2

266) Explain the relationship between Foreign Direct Investment and Economic development.

Answer : (i) FDI is an important factor in the global economy.
(ii) Foreign trade and FDI are closely related.
(iii) In developing countries like India FDI in the natural resource sector, including plantation increases trade volumes.
(iv) FDI is also influenced by the income generated from the trade and regional integration schemes.
(v) FDI is helpful to accelerate the economic growth by facilitating essential imports needed for carrying out development programmes like capital goods, technical know-how, raw materials and other inputs and even scarce consumer goods.
(vi) FDI is encouraged by the factors such as foreign exchange shortage, desire to create employment and acceleration of the pace to economic development.
(vii) Many developing countries, strongly prefer foreign investment to imports.

(viii) The real impact of FDI on different sections of an economy (say India) may differ.
(ix) Large demand for USD, generaed by IMF and World Bank Policies help the USD to gain value continuously.

267) Explain the causes for Balance of Payment Disequilibrium

Answer : (i) Cyclical Fluctuation:
Cyclical disequilibrium in different countries is caused by their cyclical fluctuations their phases and magnitude.
(ii) Structur Change:
Its caused by the structural changes brought by huge development and investment programmes in the developing countries.
(iii) Development Expenditure:
(1) Its caused by rapid economic development which results in income and price effects.
(2) The less developed countries in the early stage of development are not self sufficient.
(iv) Consumerism:
Balance of payments position of a country is adversely affected by a huge increase in consumption.
v) Demonstratron Effect:
Deficit in the balance of payments of developing countries is also caused by demonstration effect.
vi) Borrowing:
International borrowing and investment may cause a deficit in the balance of payments.
(vii) Global Politics:
The rich countries need to sell their weapons to promote their economy and generate employment.

268) Explain the any two types of Exchange Rates

Answer : Types of Exchange Rate:
(i) Nominal Exchange Rate
(ii) Real Exchange Rate
(iii) Nominal Effective Exchange Rate
(iv) Real Effective Exchange Rate If 1US Dollar = Rs.75
(i) Nominal Exchange Rate:
Nominal Exchange Rate = $\frac{75}{1}$
This is the bilateral nominal exchange rate.

(ii) Real Exchange Rate:

(1) Real Exchange Rate = $\frac{eP_r}{P}$

P = Price level in India

PF = Price level in abroad (say US)

e = Nominal Exchange Rate

(2) If a pen costs Rs.50 in India and it costs 5 USD in the US.

$$\therefore Real \quad Exchange \quad Rate = \frac{75 \times 5}{50} = 7.5$$

(3) If real exchange rate is equal to 1, the currencies are at purchasing power parity.

(4) If the price of the pen in US is 0:66 USD, then the real exchange rate

$$= \frac{\overset{0.33}{\cancel{0.66}} \times \overset{3}{\cancel{75}}}{\underset{2}{\cancel{50}}} = 0.99$$

Then it could be said that the USD and Indian rupee are at purchasing power parity.

269) Explain the disadvantages of FDI.

Answer : (i) Private foreign capital tends to flow to the high profit areas rather than to the priority sectors.

(ii) The technologies brought in by the foreign' investor may not be appropriate to the consumption needs, size of the domestic market etc.

(iii) Foreign investment, sometimes, have unfavorable effect on the Balance of Payments of a country because when the drain of foreign exchange by way of royalty, dividend , etc. is more than the investment made by the foreign concerns.

(iv) Foreign capital sometimes interferes in the national politics.

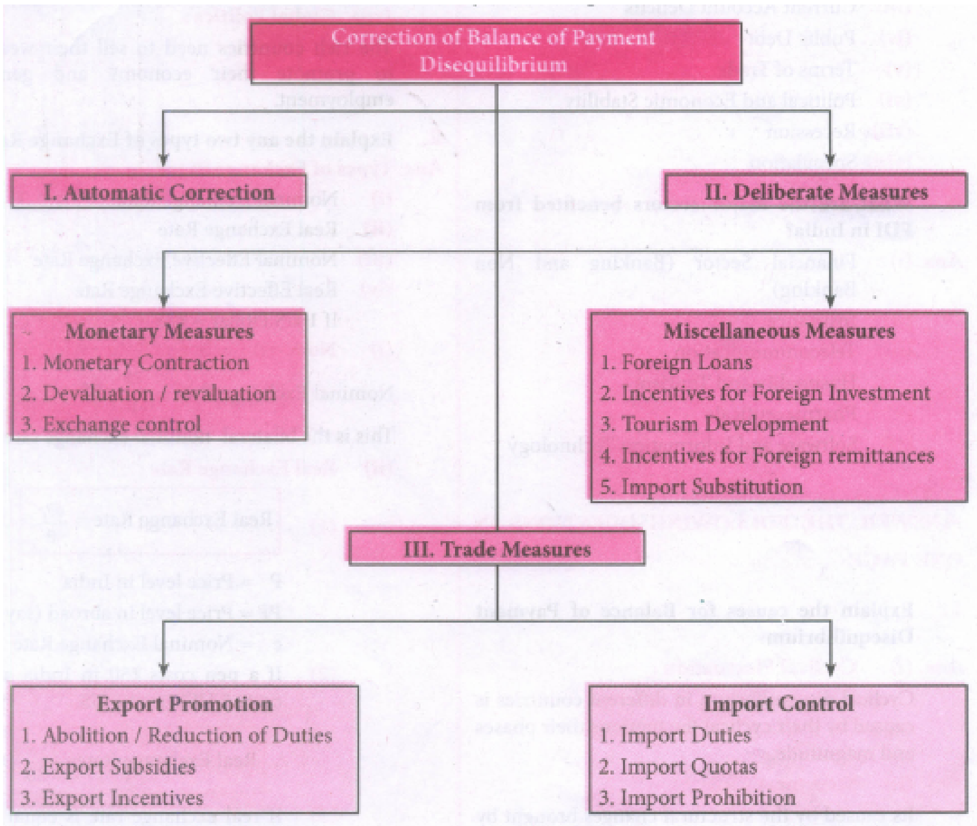
(v) Foreign investors sometimes engage in unfair and unethical trade practices. (

vi) Often, there are several costs associated with encouraging foreign investment.

(iv) Foreign investment in some cases leads to the destruction.

270) Draw the flow chart for correction of Balance Payment Disequilibrium

Answer :



271) Explain the determinants of Equilibrium Exchange Rate

Answer : Determinants of Exchange Rates

Exchange rates are determined by numerous factors and they are related to the trading relationship between two countries

1. Differentials in Inflation

Inflation and exchange rates are inversely related. A country with a consistently lower inflation rate exhibits a rising currency value, as its purchasing power increases relative to other currencies.

2. Differentials in Interest Rates

There is a high degree of correlation between interest rates, inflation and exchange rates. Central banks can influence over both inflation and exchange rates by manipulating interest rates. Higher interest rates attract foreign capital and cause the exchange rate to rise and vice versa.

3. Current Account Deficits

A deficit in the current account implies excess of payments over receipts. The country resorts to borrowing capital from foreign sources to make up the deficit. Excess demand for foreign currency lowers a country’s exchange rate.

4. Public Debt

Large public debts are driving out foreign investors, because it leads to inflation. As a result, exchange rate will be lower

5. Terms of Trade

A country’s terms of trade also determines the exchange rate. If the price of a country’s exports rises by a greater rate than that of its imports, its terms of trade will improve. Favorable terms of trade imply greater demand for the country's exports and thus BoP becomes favorable.

6. Political and Economic Stability

If a nation's political climate is stable and economic performance is good, its currency value will be appreciated by attracting more foreign capital

7. Recession

Interest rates are low during the recession phase. This will decrease inflow of foreign capital. As a result, a currency will be depreciated against other currencies, thereby lowering the exchange rate.

8. Speculation

If a country's currency value is expected to rise, investors will demand more of that currency in order to make a profit in the near future. This results in appreciation of the exchange rate. Beside the above determinants, relative dominance in the global politics and the power to announce economic sanctions over other countries also determine exchange rates

272) Discuss the state of FDI in India.

Answer : Introduction

(i) The early 1990s witnessed reforms in the economic policy. This helped to open up Indian markets to FDI

(ii) FDI in India has increased over the years

(iii) In India, FDI has been advantageous in terms of free flow of capital, improved technology, management expertise and access to international markets

The major sectors benefited from FDI in India are:

(i) financial sector (banking and nonbanking)

(ii) insurance

(iii) telecommunication

(iv) hospitality and tourism

(v) pharmaceuticals and

(vi) software and information technology

FDI is not permitted in the industrial sectors like

(i) Arms and ammunition

(ii) atomic energy,

(iii) railways,

(iv) coal and lignite and

(v) mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper etc.,

Latest trend of FDI in India

i. FDI inflow in India has increased from $ 97 million in 1990-91 to $ 5,535 million in 2004-2005.

ii. It amounted to \$ 32,955 million in 2011-2012.
iii. UNCTAD's World Investment Report 2018 reveals that FDI to India declined to \$ 40 billion in 2017 from \$ 44 billion in 2016

273) State the importance of the comparative advantage of international trade.

Answer : (i) The balance of aggregate demand and aggregate supply was first described.
(ii) The cost of goods is determined by the ratio of aggregate demand and supply for them, both domestically and from abroad;
(iii) He theory is true regarding any quantity of goods and any number of countries, as well as for the analysis of trade between different entities
(iv) In this case, country specialization in some goods depends on the ratio of wage levels in each country;
(v) The theory based the existence of benefits from trade for all countries, taking part in it;
(vi) There become possible to develop foreign economic policy on the scientific foundation.

274) Explain Adam Smith's Theory of Absolute Cost Advantage

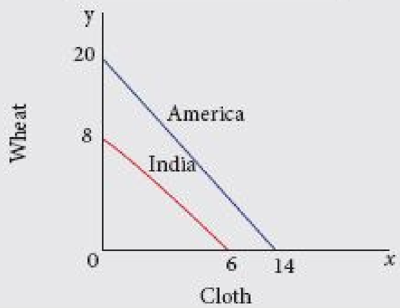
Answer : Adam Smith argued that all nations can be benefitted when there is free trade and specialisation in terms of their absolute cost advantage

The Theory
(i) According to Adam Smith, the basis of international trade was absolute cost advantage.
(ii) Trade between two countries would be mutually beneficial when one country produces a commodity at an absolute cost advantage over the other country which in turn produces another commodity at an absolute cost advantage over the first country.

Assumptions
1. There are two countries and two commodities (2 x 2 model).
2. Labour is the only factor of production
3. Labour units are homogeneous
4. The cost or price of a commodity is measured by the amount of labour required to produce it.
5. There is no transport cost.

Illustration
Absolute cost advantage theory can be illustrated with the help of the following example.

Country	India	China
(Output per unit of labour)		
Wheat	20	8
Cloth	6	14



(iii) From the illustration, it is clear that India has an absolute advantage in the production of wheat over China and China has an absolute advantage in the production of cloth over India

(iv) Therefore, India should specialize in the production of wheat and import cloth from China. China should specialize in the productionof cloth and import wheat from India

(v) This kind of trade would be mutually beneficial to both India and China.

275) Elaborate various Gains from International Trade?

Answer : Introduction

(i) International trade helps a country to export its surplus goods to other countries and secure a better market for it.

(ii) Similarly, international trade helps a country to import the goods which cannot be produced at all or can be produced at a higher cost

(iii) The gains from international trade may be categorized under four heads.

I. Efficient Production

International trade enables each participatory country to specialize in the production of goods in which it has absolute or comparative advantages.International specialization offers the following gains.

1. Better utilization of resources.
2. Concentration in the production of goods in which it has a comparative advantage.
3. Saving in time.
4. Perfection of skills in production.
5. Improvement in the techniques of production.
6. Increased production.
7. Higher standard of living in the trading countries

II. Equalization of Prices between Countries

International trade may help to equalize prices in all the trading countries

1. Prices of goods are equalized between the countries (However, in reality it has not happened).
2. The difference is only with regard to the cost of transportation.
3. Prices of factors of production are also equalized (However, in reality it has not happened).

III. Equitable Distribution of Scarce Materials

International trade may help the trading countries to have equitable distribution of scarce resources.

IV. General Advantages of International Trade

1. Availability of variety of goods for consumption.
2. Generation of more employment opportunities.
3. Industrialization of backward nations.
4. Improvement in relationship among countries (However, in reality it has not happened).
5. Division of labour and specialisation.
6. Expansion in transport facilities

276) Compare and contrast fixed and flexible exchange rates.

Answer :

BASIS FOR COMPARISON	FIXED EXCHANGE RATE	FLEXIBLE EXCHANGE RATE
Meaning	Fixed exchange rate refers to a rate which the government sets and maintains at the same level	Flexible exchange rate is a rate that varies according to the market forces.
Determined by	Government or central bank	Demand and Supply forces
Changes in currency price	Devaluation and Revaluation	Depreciation and Appreciation
Speculation	Takes place when there is rumor about change in government policy.	Operates to remove external instability by change in Forex rate.
Self adjusting mechanism	Operates through variation in supply of money, domestic interest rate and price.	

277) List the offers of International specialization

Answer : 1. Better utilization of resources.
2. Concentration in the production of goods in which it has a comparative advantage.
3. Saving in time.
4. Perfection of skills in production.
5. Improvement in the techniques of production.
6. Increased production.
7. Higher standard of living in the trading countries