

## FOURTH SEMESTER M.A. DEGREE EXAMINATION, MARCH 2020

(CUCSS)

Economics

ECO 4C 13—INTERNATIONAL FINANCE

Time : Three Hours

Maximum : 36 Weightage

## Part A

*Answer all questions.**Each question carries  $\frac{1}{4}$  weightage.*

1. On 15 August 1971, the United States unilaterally terminated convertibility of the US dollar to gold, effectively bringing the \_\_\_\_\_ to an end and rendering the dollar a fiat currency.
  - (a) International Monetary Fund.
  - (b) SDR System.
  - (c) Gold Standards.
  - (d) Bretton Woods System.
2. \_\_\_\_\_ are most commonly classified as a direct foreign investment.
  - (a) Foreign acquisitions.
  - (b) Purchases of international stocks.
  - (c) Licensing agreements.
  - (d) Exporting transactions.
3. The demand for rupees in the foreign-exchange market :
  - (a) Is represented by the intersection of foreign exchange supply and demand.
  - (b) Depend on the foreign demand for Indian goods.
  - (c) Depends on Indian demand for foreign goods and services.
  - (d) Is the ratio of the rupee demanded to the amount of foreign currency supplied
4. Under a fixed exchange rate system :
  - (a) Forward foreign exchange market does not exist as it would be pointless since rates do not move.
  - (b) Central bank intervention in the foreign exchange market is not necessary since rates do not move.
  - (c) Central bank intervention in the foreign exchange market is often necessary.
  - (d) Central bank intervention in the foreign exchange market is not permitted.

Turn over

5. The freedom to convert local financial assets into foreign financial assets and vice versa at market determined rates of exchange is called \_\_\_\_\_.
- (a) Current Account Convertibility.      (b) Hedging.  
(c) Capital Account Convertibility.      (d) Swap.
6. In 2008 Zimbabwean accepted a foreign currency as legal tender for transactions with a set number of retailers. This is called :
- (a) Demonetization.      (b) Trade monetization.  
(c) Dollarisation.      (d) Hedging.
7. A \_\_\_\_\_ is an agreement in which two parties exchange the principal amount of a loan and the interest in one currency for the principal and interest in another currency.
- (a) Currency Derivative.      (b) Currency Swap.  
(c) Currency Futures.      (d) Currency Options.
8. A \_\_\_\_\_ regime is an international financial environment in which exchange rates fluctuate from day to day, but central banks attempt to influence their countries' exchange rates by buying and selling currencies to maintain a certain range.
- (a) Trotting Peg.      (b) Managed Float.  
(c) Adjustable Peg.      (d) Crawling Peg.
9. "The Central Banks would thus have an incentive to convert the existing dollar holdings into gold, and that would, in turn, force the US to give up its commitment". This was the \_\_\_\_\_.
- (a) Triffin Dilemma.      (b) Dexter Dilemma.  
(c) Keynes Dilemma.      (d) IMF Dilemma.
10. A geographic area in which a single currency would create economic benefit is a \_\_\_\_\_.
- (a) Optimal Currency Area.      (b) Swap Market.  
(c) Futures Market.      (d) IMF.
11. Suppose a country with a fixed exchange rate decides to implement a devaluation of its currency and commits to maintaining the new fixed parity. This implies (i) \_\_\_\_\_ in the demand for its goods and a monetary (ii) \_\_\_\_\_.
- (a) Contraction ; contraction.      (b) Contraction ; expansion.  
(c) Expansion ; contraction.      (d) Expansion ; expansion.

12. The Mundell-Fleming framework studies \_\_\_\_\_, \_\_\_\_\_ economies in a world with \_\_\_\_\_ financial markets and \_\_\_\_\_ capital mobility.
- (a) Small ; open ; integrated ; free.
  - (b) Large ; open ; integrated ; free.
  - (c) Ssmall ; mercantilist ; integrated ; free.
  - (d) Large ; open ; restricted ; free.

(12 × ¼ = 3 weightage)

**Part B (Very Short Answer Questions)**

*Answer any five questions.*

*Each question carries 1 weightage.*

- 13. Current Account Convertibility.
- 14. Depreciation.
- 15. Currency Futures.
- 16. Portfolio Investment.
- 17. Gold Standards.
- 18. Hedging.
- 19. REER.
- 20. FEMA.

(5 × 1 = 5 weightage)

**Part C (Short Essay Questions)**

*Answer any eight questions.*

*Each question carries 2 weightage.*

- 21. What is the Marshall-Lerner Condition ?
- 22. Exchange Rate Overshooting.
- 23. Mundell-Fleming Model.
- 24. Multinational Corporations (MNCs).
- 25. Breton Wood System.
- 26. European Monetary Union.

**Turn over**

27. J-Curve Effect.
28. Financial Account.
29. Currency Options.
30. Portfolio Balance Approach.
31. Currency Arbitrage.

(8 × 2 = 16 weightage)

**Part D (Essay Questions)**

*Answer any three questions.  
Each question carries 4 weightage.*

32. Explain in details the components of BOP.
33. Explain in detail the Purchasing Power Parity theory.
34. Details characteristics of a Flexible Exchange Rate system.
35. Differentiate between Portfolio Investment and Foreign Direct Investment.
36. Write an essay on the Bretton Woods system and why it failed.

(3 × 4 = 12 weightage)