

C 24867

(Pages : 4 + 4 = 8)

Name.....

Reg. No.....

FOURTH SEMESTER M.A. DEGREE EXAMINATION, APRIL 2022

(CBCSS—SDE/Private)

Economics

ECO 4C 12—INTERNATIONAL FINANCE

(2019 Admisssion onwards)

Time : Three Hours

Maximum : 30 Weightage

Part A*Answer all questions.**Each bunch of five questions carries a weightage of 1.*

1. _____ are most commonly classified as a direct foreign investment.
 - a) Foreign acquisitions.
 - b) Purchases of international stocks.
 - c) Licensing agreements.
 - d) Exporting transactions.
2. Which of the following would likely have the least direct influence on a country's current account ?
 - a) Inflation.
 - b) National income.
 - c) Exchange rates.
 - d) A tax on income earned from foreign stocks.
3. LIBOR is :
 - a) The interest rate commonly charged for loans between banks.
 - b) The average inflation rate in European countries.
 - c) The maximum loan rate ceiling on loans in the international money market.
 - d) The maximum deposit rate ceiling on deposits in the international money market.
4. The objectives of the International Monetary Fund (IMF) are :
 - a) To promote international monetary co-operation.
 - b) To promote exchange stability.
 - c) To create standby reserves.
 - d) All of the above.

Turn over

5. Under the purely fluctuating exchange rate system, the balance of payments imbalances is automatically corrected by the following mechanism :
- a) Speculation.
 - b) Government intervention.
 - c) Interest rate changes.
 - d) Supply and demand in exchange markets.
6. Which of the following is not directly related to the Bretton Woods system ?
- a) The fixed exchange rate system.
 - b) The Bank of England.
 - c) The International Monetary Fund.
 - d) The World Bank.
7. Which of the following is not directly attributable to the collapse of the fixed exchange rate system ?
- a) U.S. balance of payments deficits.
 - b) The decrease in the U.S. dollar value.
 - c) The decline of international reserves.
 - d) Japan's trade surplus.
8. Restrictions on the use of foreign exchange by the Central bank are called _____.
- a) Exchange controls.
 - b) Official transfers.
 - c) Foreign exchangereserves.
 - d) LAF.
9. If the deficits in a country's BOP persists for along time it is a case of :
- a) Structural disequilibrium.
 - b) Fundamental disequilibrium.
 - c) Cyclical disequilibrium.
 - d) Temporary disequilibrium.
10. According to the Purchasing Power Parity theory, the rate of exchange between the currencies of two countries is determined by _____.
- a) Their relative price levels.
 - b) Their import and export volumes.
 - c) Their import and export values.
 - d) Their relative capital movements.

11. In the Mundell-Fleming model, the domestic interest rate is determined by the :
- Intersection of the LM and IS curves.
 - Domestic rate of inflation.
 - World rate of inflation.
 - World interest rate.
12. Any option with a positive intrinsic value is said to be _____.
- Profitable.
 - In-the-money.
 - Out-of-the-money.
 - At-the-money.
13. Transaction exposure can be hedged :
- By internal methods only.
 - By external methods only.
 - Either by internal methods or by external methods, but not by both.
 - Either by internal methods or by external methods or a combination of both.
14. In which of the following sectors does the Government of India allow more than 50 % FDI ?
infrastructure /services
- Print media.
 - Telecommunications.
 - Insurance.
 - Defence.
15. _____ means a decline in the rate of exchange of one country in terms of another's.
- Deflation.
 - Tariff.
 - Exchange Depreciation.
 - exchange devaluation.

(15 × 1/5 = 3 weightage)

Part B (Very Short Answer Questions)

Answer any five questions.

Each question carries a weightage of 1.

- Currency Arbitrage.
- Eurocurrency mark.
- Currency risk.
- Eurobonds.

Turn over

20. What do you mean by a swap transaction ?
21. Merchandise imports.
22. REER.
23. Difference between capital and current account.

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

*Answer any seven questions.
Each question carries a weightage of 2.*

24. Differentiate between Spot and forward rate.
25. Describe the objectives of IMF.
26. What do you mean by Optimum Currency Area ?
27. Give an account of current account convertibility.
28. Briefly describe the J-Curve effect.
29. Enumerate the disadvantages of fixed exchange rate system.
30. Discuss the significance of Swan diagram.
31. Differentiate between offshore banking and offshore currency trading.
32. What are the main benefits of a multinational company ?
33. Discuss the significance of Currency boards.

(7 × 2 = 14 weightage)

Part D (Essay Questions)

*Answer any two questions.
Each question carries a weightage of 4.*

34. Explain in detail the various participants of the foreign exchange market. State how do these participants interact with each other in the market.
35. Evaluate the Absorption Approach to Balance of Payments.
36. Explain in detail the various components of Balance of Payments.
37. Critically evaluate the Mundell Fleming model.

(2 × 4 = 8 weightage)