# T.Y.B.COM. - BUSINESS ECONOMICS-VI

## CHAPTER - 1 : INTERNATIONAL TRADE

## MULTIPLE CHOICE QUESTIONS

1. International trade increases the welfare of ______.
   (all participating countries, only exporting countries, only importing countries, none of the above)
2. International trade increase the ______ of participating countries.
   (output, profit, risks, none of the above)
3. According to David Ricardo, international trade is beneficial under ______ cost. (comparative, absolute, equal difference in cost, none of the above)
4. David Ricardo's Theory assumes perfect mobility of labour ______.
   (within the country, between the participating countries, within and between the participating countries, none of the above)
5. Comparative cost theory is static theory because it assumes ______.
   (there is no qualitative and quantitative change in inputs, labour is homogeneous within the country, there is no transport cost, none of the above)
6. Ricardian theory measures comparative cost in terms of ______.
   (man days, money, input costs, all of the above)
7. Ricardian theory assumes that labour is ______ within the country.
   (homogeneous, heterogeneous, inefficient, all of the above)
8. Ricardian theory can be extended to ______. (more than two countries, only two countries, only to developed nations, only to developing nations)
9. Hecksher Ohlin theory on international trade can explain ______ trade. (inter-regional and international, only inter-regional, only international, none of the above)
10. Commodity X is capital intensive, when in its production capital/ labour ratio is ______ than Commodity Y. (greater, less, equal to, none of the above)

11. Hecksher Ohlin theory cannot be applied to more than ______.
    (several commodities and several countries, two commodities, two countries, few countries)
12. According to Hecksher Ohlin theory, product price depends on ______.
    (all of the given below, only factor intensity, only factor abundance, factor cost)
13. According to Hecksher Ohlin theory, the international trade takes place due to difference in ______. (product price, labour efficiency, advanced technology, all of the above)
14. In international trade ______ move between nations. (commodities and not factors, factors of production, factors and commodities, none of the above)
15. Terms of trade are expressed as a ratio of ______.
    (price index of exports and imports, foreign exchange receipts and payments, FDI and portfolio investments, none of the above)
16. Terms of trade are favourable if the current index in comparison to the base year index is ______. (more, less, equal, none of the above)
17. Gross barter terms of trade takes into account ______.
    (trade items and unilateral payments, only trade items, only services, none of the above)
18. Income terms of trade indicate increased capacity to ______.
    (import, export, investment, none of the above)
19. Single factoral terms of trade takes into account changes in ______.
    (efficiency of factors of production of export goods, export prices, import prices, demand for imports)
20. Generally, the developing countries ______ terms of trade.
    (suffer from adverse, enjoy favourable, ignore, none of the above)
21. The gain from trade is maximum if the international terms of trade are ______. (nearer to the internal terms of trade of trading partner, nearer to the domestic terms of trade of importing country, equal to exporting country, none of the above.)
22. An offer curve differs from ______. (usual demand and supply curves, usual demand curve, usual supply curve, none of the above)
23. International trade increases the welfare of ______.
    (all participating countries, only exporting country, only importing country, only developed countries)
24. International trade results in ______. (all of the given below, innovations, reduction in costs, diversifies consumption)

25. Cultural changes due to international trade are ______.
    (positive and negative, only positive, only negative, none of the above)
26. The concept of gross barter terms of trade was introduced by ______.
    (Frank Taussig, Alfred Marshall, Francis Edgeworth, John S. Mill)
27. The concept of income terms of trade was introduced by ______.
    (Graeme S Dorrance, Frank W Taussig, David Ricardo, Francis Edgeworth)
28. Utility terms of trade was introduced by ______.
    (Jacob Viner, Adam Smith, J. S. Mill, Frank Taussig)
29. The concept of offer curves was introduced by ______.
    (A. Marshall and F Edgeworth, Adam Smith and David Ricardo, John S. Mill and John M Keynes, None of the above)
30. Terms of trade will be favourable to a country when ______.
    (all of the given below, its exports have inelastic demand, its imports have elastic demand, its supply of exports is elastic)
31. The offer curve of a country is based on ______. (relative prices of two commodities, price of exports, price of imports, supply of exports)
32. A country will have unfavourable terms of trade when ______.
    (imports have inelastic demand, imports have elastic demand, exports have elastic supply, none of the above)
33. When supply of exports is elastic, a country will have ______ terms of trade. (favourable, unfavourable, different, none of the above)
34. The concept of reciprocal demand was introduced by ______.
    (J. S. Mill, J. M. Keynes, G. S. Dorrance, F.W. Taussig)
35. Reciprocal demand is expressed in terms of ______.
    (Offer curves, supply curves, demand curves, cost curves)
36. The classical theory of international trade was presented by ______.
    (David Ricardo, Hecksher-Ohlin, J. M. Keynes, Alfred Marshall)
37. Hecksher-Ohlin theory states that the relative factor prices in two countries are determined by ______. (differences in factor endowments, labour efficiency, technological developments, none of the above)
38. Hecksher-Ohlin theory is also known as ______ theory of international trade. (modern, traditional, classical, none of the above)
40. Under ______ type of cost difference, international trade will not take place. (equal, absolute, comparative, none of the above)

***Ans: The first option is the correct option.***

# CHAPTER - 2 : COMMERCIAL POLICY AND INTERNATIONAL ECONOMIC INTEGRATION

## MULTIPLE CHOICE QUESTIONS

1. Which one of the following is not an objective of commercial trade policy ?
   (a) To preserve foreign exchange reserves
   (b) To determine the rate of interest
   (c) To protect domestic industries from foreign competition
   (d) To maintain favourable balance of payments
2. Which one of the following is an argument for free trade?
   (a) Protects domestic industries
   (b) Promotes self sufficiency
   (c) Helps diversification of industries
   (d) Promotes efficient allocation of world resources
3. Which of the following is an argument against the policy of free trade?
   (a) Does not always benefit less developed countries
   (b) Protects inefficient industries
   (c) Causes unemployment in the export sector
   (d) Harms domestic consumers
4. Protectionist policy ______
   (a) Encourages international specialization
   (b) Promotes global production
   (c) Helps prevent dumping
   (d) Reduces government intervention in trade
5. Tariff rate quotas are ______
   (a) combination of tariffs and quotas
   (b) based on the value of the traded commodity only
   (c) based on the quantity or volume of the quantity only
   (d) low tariff rate on an initial quantity of import within the quota limit and very high tariff rate on imports above the initial amount

6. A tariff expressed as either a specific or an ad valorem rate, whichever is higher, is known as ______
   (a) General tariff (b) Mixed tariff
   (c) Compound tariff (d) Countervailing tariff
7. Countervailing tariffs specifically aim to ______
   (a) give preference to imports from a customs union
   (b) retaliate to a tariff imposed by a trading partner
   (c) neutralize the effects of subsides given to the producers in the exporting countries
   (d) counter dumping by other countries
8. A system that makes it mandatory for domestic producers to use some proportion of domestic raw material is known as ______
   (a) Mixing quota (b) Global quota
   (c) Allocated quota (d) Import licensing
9. Which of the following is not a NTB?
   (a) Voluntary export restrictions
   (b) Local content requirement
   (c) Administrative barriers
   (d) Tariff rate quotas
10. Which one of the following NTBs prevents free movement of capital between countries?
    (a) Preferential government procurement
    (b) Exchange controls
    (c) Domestic subsidies
    (d) Local content requirement
11. The reduction in domestic consumption due to imposition of quota results in ______
    (a) increase in government revenue
    (b) increase in consumer's surplus
    (c) loss of social welfare
    (d) increase in social welfare
12. A preferential trade area is a trade bloc where ______
    (a) countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations
    (b) countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations

(c) countries agree to have a common unified tariff against non-members

(d) all barriers are eliminated to allow free movement of goods, services, capital and labour

13. A free trade area is a trade bloc where ______

(a) countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations

(b) countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations

(c) countries agree to have a common unified tariff against non-members

(d) all barriers are eliminated to allow free movement of goods, services, capital and labour

14. A customs union is a trade bloc where ______

(a) countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations

(b) countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations

(c) countries agree to have a common unified tariff against non-members

(d) all barriers are eliminated to allow free movement of goods, services, capital and labour

15. A common or single market is a trade bloc where ______

(a) countries agree to reduce or eliminate tariff barriers on all goods imported from other member nations

(b) countries agree to reduce or eliminate tariff barriers on selected goods imported from other member nations

(c) countries agree to have a common unified tariff against non-members

(d) all barriers are eliminated to allow free movement of goods, services, capital and labour

16. ______ is one of the disadvantages of international economic integration.

(a) cross-border investment flows

(b) employment generation

(c) increasing interdependence

(d) conflict resolution

17. The ______ was signed to create the EU in 1993.
    (a) Treaty of Maastricht (b) Treaty of Rome
    (c) Treaty of Lisbon (d) Treaty of London
18. The euro replaced the national currencies of 12 EU member nations in the year ______
    (a) 1997 (b) 2002
    (c) 2000 (d) 1995
19. The functioning of the EU single market in governed by ______
    (a) Treaty of Rome
    (b) Treaty of Amity and Cooperation
    (c) European Financial Stability Facility
    (d) Treaty of the Functioning of European Union
20. The Eurozone crisis was essentially a ______ crisis.
    (a) Immigration (b) Food
    (c) Sovereign debt (d) Political
21. ASEAN was formed in
    (a) 1967 (b) 1945
    (c) 1999 (d) 2000
22. The ______ was established in 2015 to bring about economic integration to create a single market in ASEAN.
    (a) ATIGA (b) AEC
    (c) AFTA (d) ABIF
23. The aim of ABIF is to establish ______
    (a) Banking integration in ASEAN
    (b) Food security in ASEAN
    (c) Free labour market in ASEAN
    (d) Customs union in ASEAN

***Ans.: (1) - (b), (2) - (d), (3) - (a), (4) - (c), (5) - (d), (6) - (b), (7) - (c), (8) - (a), (9) - (d), (10) - (b), (11) - (c), (12) - (b), (13) - (a), (14) - (c), (15) - (d), (16) - (c), (17) - (a), (18) - (b), (19) - (d), (20) - (c), (21) - (a), (22) - (b), (23) - (a)***

# CHAPTER - 3 : BALANCE OF PAYMENTS AND WTO

## MULTIPLE CHOICE QUESTIONS

1. Unilateral transfers ______. (all of the below, are unrequited transfers, are one-way transfers, include gifts/remittances)
2. Unilateral flows in the balance of payment account refer to ______. (Gifts and Grants, capital flows, visible goods flows, invisible flow of services)
3. The full form of TRIMs is ______. (Trade Related Investment Measures, trade related insurance measures, trade related investment methods)
4. WTO was set up on ______. (1st January 1995, 1st June 1985, 31st July, 1995, 1st January 2000)
5. GATS stands for ______. (General Agreement on Trade in Services, General Agreement on Tariff and Services, General Agreement on Transport and Services)
6. Autonomous capital flows ______ other items in the balance of payments. (are independent of, depend on, are related to, have impact on)
7. The current account in the balance of payments ______. (includes merchandise trade and services, is a total of all the visible items of trade, includes borrowings, includes autonomous and accommodating flows).
8. A deficit in India's Balance of Trade in recent times is due to ______. (all of the below, rise in price of crude oil, increase in imports, reduction in exports)
9. Good performance on ______ has helped India to reduce its current a/c balance deficit in recent times. (invisible account, trade account, capital account)
10. There is an increase in ______ on India's capital a/c in recent times. (non-debt foreign investment flows, private transfers, private remittances, unilateral receipts).
11. After covering deficits on current a/c, excess capital a/c receipts are added to ______. (foreign exchange reserves, IMF account, official transfers)

12. Bank capital on India's capital a/c includes ______.
    (foreign currency deposits – NRI deposits, foreign exchange reserves, local withdrawal from NRI rupee deposits, official transfers)
13. Private transfers on India's current account include ______. (Local withdrawal from NRI rupee deposits, foreign currency deposits, foreign exchange reserves)
14. International trade increases the welfare of ______. (all participating countries, only exporting countries, only importing countries, none of the above)
15. WTO agreements incorporated ______ proposals. (Arthur Dunkel, Adam Smith, David Ricardo, John M. Keynes)
16. ______ has given mandate to negotiate multilateral rules relating to services. (WTO, World Bank, IMF, ADB)
17. Foreign direct investment is a part of ______. (Capital account, trade account, current account, none of the above)
18. External borrowing is treated as ______ flow. (Accommodative, Autonomous, invisible, none of the above)
19. Foreign exchange reserves of India include ______. (All of the below, Special Drawing Rights, Foreign Currency reserves, Reserve Tranche of IMF)
20. The highest authority of WTO is ______. (The Ministerial Conference, The Trade Policy Review Body, The General Council, The Dispute Settlement Body)
21. The Agreement on Agriculture does not aim at ______. (Increasing export subsidies, Improving market access, reducing domestic subsidies, reducing domestic support)
22. Intellectual property rights include ______. (All of the below, copyrights, layout designs, trade marks)
23. The current account balance of BoP does not include ______. (FDI, services exports, unilateral transfers, non-factor services)
24. ______ is not a part of unilateral transfers (Short term loans, gifts, donations, remittances by workers)
25. ______ is not a direct measure to correct BoP disequilibrium. (Devaluation of exchange rate, quotas, tariffs, import substitution)
26. When BoP disequilibrium is chronic in nature and lasts for a long time, it is a sign of ______ disequilibrium. (fundamental, cyclical, structural, monetary)
27. When disequilibrium takes place due to changes in demand pattern for exports or imports, it is a case of ______ disequilibrium. (structural, cyclical, long-term, short-term)

28. TRIMs agreement refers to treating foreign investment at ______ with domestic investment. (par, premium, discount, inequity)
29. The effectiveness of devaluation depends on ______. (All of the below, international cooperation, elasticity of demand for merchandise goods, elasticity of demand for services)
30. Foreign exchange reserves of India include ______. (All of the below, SDRs, Foreign Currency Assets, Gold Reserves)
31. In the past several years, India's capital account balance was in ______. (surplus, deficit, balance, none of the above)
32. Portfolio foreign investment is included in ______ account of BoP. (capital, current, trade, debit)
33. Expenditure switching policies to correct BoP deficit include ______ of domestic currency. (devaluation, appreciation, revaluation, all of the above)
34. Tariffs and quotas are imposed on imports to correct BoP deficit are called as ______ measures. (direct, indirect, passive, all of the above)
35. The sum of the total export-import demand elasticity must be ______. (greater than one, equal to one, zero, less than one)
36. In the past several years, India's net invisibles were in ______. (surplus, deficit, balance, none of the above)

***Ans: The first option is the correct option.***

# CHAPTER - 4 : FOREIGN EXCHANGE MARKET

## MULTIPLE CHOICE QUESTIONS

1. Hedging refers to ________. (the covering of a foreign exchange risk, foreign exchange speculation, the acceptance of foreign exchange risk, interest rate arbitrage)
2. Under flexible exchange rate system, exchange rate is determined by ________. (the demand and supply of foreign exchange, Central Bank intervention, the price of gold, none of the above)
3. Functions of forex market include ________. (all the below, provision of facilities for funds transfer, trading, short term finance)
4. Which of the following is not a function of the foreign exchange market?

   (Import and export of goods and services, transfer of purchasing power, coverage of risk, provision of credit instruments and credit)
5. ________ helps to equalize the exchange rate in all part of the foreign exchange market. (speculation, interest arbitrage, hedging)
6. Forward market in foreign exchange refers to ________ market. (Short and long run, a short run, a long run, a spot)
7. Speculation in foreign exchange market refers to ________. (accepting risk to make profits, hedging, interest arbitrage, none of the above)
8. India adopts ________ exchange rate system. (managed flexibility, fixed exchange rate, flexible exchange rate, none of the above)
9. The rate at which the foreign currency is exchanged at current rate is called ________ rate. (spot, forward, arbitrage, none of the above)
10. Vehicle currency is ________. (a standard internationally accepted currency, a currency of IMF, a currency issued by RBI, none of the above)
11. Arbitrage refers to purchase and sale of an asset ________. (at low price in one market and its simultaneous sale at higher price in another market, at high price in one market and its sale at lower price in another market, purchase and sale at the same price, all of the above)
12. ________ is not included in the wholesale foreign exchange market. (small investor, RBI, FII, Commercial Bank)
13. Speculators deal in ________. (spot and forward exchange rate, only spot exchange rate, only forward exchange rate, none of the above)

14. Hedgers enter foreign exchange market to ________. (cover risk, earn margin, speculate, none of the above)
15. Foreign exchange market is a place where ________. (various foreign currencies are exchanged, only foreign tourists exchange currencies, only exporters convert the foreign currencies, only importers convert the foreign currencies)
16. Flexible exchange creates ________ in importers and exporters. (uncertainty, confidence, safety, none of the above)
17. ________ is not a defect of flexible exchange rate. (Stability in international monetary system, speculation, structural unemployment, discourages investments)
18. Under ________ exchange rate system, the exchange rate is determined by market forces. (flexible, fixed, managed float, all of the above)
19. Under ________ exchange rate system, the central bank of a nation intervenes in exchange rate determination. (managed float, fixed, flexible, none of the above)
20. Fixed exchange rate system, the exchange rate was ________. (stable, unstable, fluctuating, all of the above)
21. The modern foreign exchange market operates under ________ rate system. (floating, fixed, highly managed float, all of the above)
22. In exchange rate determination, the first currency in the currency pair is called ________ currency. (base, soft, negotiable, hard)
23. ________ is a feature of foreign exchange market. (operates 24 hours for 5 day in a week, operates 24 hours for all 7 days in a week, operates 365 days in a year, none of the above)
24. ________ is not a feature of foreign exchange market. (Limited Geographical Coverage, Highly Liquid Market, Huge Value Market, None of the above)
25. ________ enables an investor to earn high returns while minimizing capital risks. (Leverage, Liquidity, Reserves, all of the above)
26. Transactions in foreign exchange market have become quicker due to ________. (advanced technology, Government Initiatives, IMF, World Bank)
27. Society for Worldwide Interbank Financial Telecommunications (SWIFT) is a ________ communication network that facilitates 24-hour secure international exchange of payment instructions between banks, central banks, multinational corporations, and major securities firms. (Global, Local, National, None of the above)

28. The function of foreign exchange market that helps in clearing international transactions is known as ________. (transfer, credit, hedging, speculation)
29. Provision of documentary bills of exchange in international payments is an example of ________ function. (creation of credit, transfer, speculation, hedging)
30. The function of foreign exchange market, which is concerned with fixing of forward exchange rates is known as ________. (Hedging, speculation, arbitrage, transfer)
31. The foreign exchange rate of a nation is influenced by ________.

    (all of the below, speculators, hedgers, arbitrators)
32. The foreign exchange rate of a nation is influenced by ________.

    (all of the below, BoP, Interest rate, speculation)
33. ________ is not a feature of spot exchange rate. (Clearing of payment takes place fairly long period, demand and supply of foreign currency determines the rate, current exchange rate, all of the above)
34. The demand for foreign currency arises due to ________. (imports, exports, investments from abroad, none of the above)
35. The supply of foreign currency is on account of ________. (exports, imports, investments abroad)
36. ________ rate is the rate at which a nation's currency is exchanged for some other nation's currency. (Exchange, Transfer, Negotiating, All of the above.
37. The demand curve for foreign exchange slopes ________ indicating that when the exchange rate of foreign currency falls, the demand for it increases. (downwards, upwards, sideways, none of the above)
38. The supply curve for foreign currency slopes ________ indicating that when the exchange rate of foreign currency increases, the supply of it increases. (upwards, downwards, sideways, all of the above)
39. If there is more demand for foreign currency, the foreign currency will ________. (appreciate, depreciate, nil effect, none of the above)
40. When the demand curve for foreign currency, intersects the supply curve, we get ________ exchange rate. (equilibrium, premium, discount, par)
41. Theory of purchasing power parity ________. (neglects capital account transactions, includes transportation cost, includes prices of non-traded goods, applies only in short run)
42. Purchasing Power Parity Theory was propounded by ________. (Gustav Cassel, David Ricardo, Adam Smith, None of the above).
43. Purchase of foreign currency by the monetary authority ________ the appreciation of domestic currency. (prevents, aggravates, leads to)

44. ______ is monetary authority's intervention to prevent forex fluctuations through M Policy instruments. (Sterilized Intervention, bank rate, open market operations, Un-sterilized intervention)
45. ______ is monetary authority's Intervention by purchase/sale of foreign current to prevent fluctuations in foreign exchange. (Unsterilised Intervention, Sterilized intervention, bank rate policy)
46. ______ of goods results in demand for foreign currency. (Import, export, sale in domestic market, none of above)
47. ______ results in supply of foreign currency. (Unilateral receipts, unilateral payments, investment abroad, none of above)
48. Equilibrium exchange rate is determined when ______. (the demand curve for foreign currency intersects with supply curve, demand curve shifts upwards, supply curves slopes downwards, none of the above)
49. Exchange rate between two currencies is based on ______. (purchasing power of two currencies, economic development of the two nations, political stability in the two countries, none of the above)
50. Critics of Purchasing Power Parity theory state that it has limited application for ______ countries. (Large, small, medium-sized, none of the above)
51. PPP Theory considers that goods in different countries are ______. (Identical, differential, superior, non of the above)
52. PPP Theory ignores capital flows on account of ______. (capital account, trade account, current account, none of the above)
53. There is a ______ relationship between demand for foreign currency and the exchange rate. (inverse, direct, straight, positive)
54. There is a ______ relationship between supply of foreign currency and the exchange rate. (direct, inverse, negative, indirect)
55. LERMS was introduced in India in ______. (1992, 2000, 2002, 2012)
56. Under managed float, the central bank of a nation intervenes to ______ foreign currency. (purchase and sell, only purchase, only sale, none of the above)
57. Under flexible exchange rate system, the exchange rate is determined by ______. (market forces, central bank, commercial banks, none of the above)
58. Under IMF, the exchange rate system was ______. (gold standard, currency board system, dollarization, none of the above)

***Ans: The First Option is the correct option.***