

D 71503

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THIRD SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2014

(CUCSS)

Economics

ECO 3C 09—INTERNATIONAL FINANCE SYSTEM

Time : Three Hours

Maximum : 36 Weightage

Part A

Answer all questions.

Each bunch of four question carries weightage of 1.

A. Multiple choice :

- 1 Under the gold standard, the inflow of gold to trade surplus country will lead to :
(a) Increase in export. (b) Decrease in export.
(c) No changes in export. (d) Decrease in export.
- 2 If a country has deficit in the balance of current account, then balance of capital account will be :
(a) Deficit. (b) Zero.
(c) Surplus. (d) None of the above.
- 3 Under a system of flexible exchange rate system disequilibrium in BOP corrected by :
(a) Devaluation. (b) Increase in money supply.
(c) Tax. (d) None of the above.
- 4 The absorption approach of BOP was formulated by :
(a) Sidney Alexander. (b) Marshal.
(c) Lerner. (d) Friedman.

B. Multiple choice :

- 5 Exporters can reduce their risk by :
(a) Hedging. (b) Arbitrage.
(c) Speculation. (d) None of the above.
- 6 An increase in Indian exports to foreign markets ——— the amount of dollars in the foreign exchange.
(a) Decrease. (b) Increase.
(c) Constant. (d) None of the above.

Turn over

7 An increase in the current account deficit will place _____ pressure on the home currency value, other things equal.

- (a) Downward. (b) Upward.
(c) Upward or downward. (d) No.

8 The purchasing power parity theory was formulated by :

- (a) Gustav Cassel. (b) Marshall.
(c) Ricardo. (d) Krugman.

C. Fill in the blanks :

9 Simultaneous buying and selling of currencies is known as _____.

10 Devaluation will improve the BOP when elasticity of demand of export and import equal to _____.

11 Spot and forward market are linked by _____.

12 The European central bank established on _____.

D. State True or False :

13 The Bretton Wood system broke down in 1970s due to USA's trade deficit.

14 Arbitrage is meant for profit making.

15 The value of the US dollar, Kuwait dinar with respect to the Indian Rupee are part of a pegged exchange rate system.

16 The higher degree of capital mobility, the more effective Fiscal policy.

(4 × 1 = 4 weightage)

Part B (Short Answer Questions)

Answer any **ten** not exceeding **one** page each.

Each question carries a weight of 2.

17 Write a note on optimum currency area.

18 Discuss the merits and demerits of flexible exchange rate system.

19 What do you mean by exchange rate overshooting.

20 Distinguish between Future and Forward market.

21 Write a short note on J curve effect.

22 Distinguish between FII and FDI.

23 Write a short note on Arbitrage.

24 Discuss the major sources of BOP disequilibrium.

25 Distinguish between Exchange depreciation and Devaluation.

26 Briefly discuss the disadvantages of MNCs.

- 27 Briefly discuss European monetary integration.
- 28 Why should investors be able to gain from uncovered interest arbitrage.
- 29 Briefly discuss elasticity absorption approach to BOP.
- 30 What implication does currency pass through have for a nation whose currency depreciated or devaluated?

(10 × 2 = 20 weightage)

Part C (Essay Questions)

Answer any three not exceeding three pages.

Each question carries a weight of 4.

- 31 Discuss the current international monetary system.
- 32 What do you mean by BOP disequilibrium? Discuss expenditure switching policies and expenditure changing policies.
- 33 Discuss Mudel-Fleming model.
- 34 Discuss the merits and demerits of fixed exchange rate system.
- 35 Discuss the importance of MNCs in the Indian economy.
- 36 How does monetary approach differ from expenditure changing approach?

(3 × 4 = 12 weightage)