

INTERNATIONAL ECONOMICS

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Contents

Hybrid exchange rates – Purchasing power parity theory – Monetary approach – Asset market (portfolio balance) model – Mundell-Fleming model – International liquidity – IMF – World Bank

1. What does the Monetary Approach to Balance of Payments emphasize?

- A. Fiscal policy
- B. Money supply and demand
- C. Trade tariffs
- D. Exchange rate controls

Answer: B. Money supply and demand

2. Which assumption is central to the Monetary Approach?

- A. Flexible prices
- B. Fixed exchange rates
- C. Capital immobility
- D. Government intervention

Answer: B. Fixed exchange rates

3. In the monetary approach, a balance of payments surplus implies:

A. Excess demand for money

B. Excess supply of money

C. Trade surplus

D. High inflation

Answer: B. Excess supply of money

3. Which economist is associated with the Monetary Approach?

A. Keynes

B. Friedman

C. Mundell

D. Meade

Answer: B.
Friedman

5. The monetary approach assumes:

- A. Perfect capital mobility
- B. Sticky prices
- C. No inflation
- D. Trade restrictions

Answer: A. Perfect capital mobility

6. A fall in domestic money demand leads to:

- A. BOP surplus
- B. Currency appreciation
- C. BOP deficit
- D. Increased exports

Answer: C. BOP deficit

7. Monetary approach links

BOP to:
A. Fiscal deficit

B. Money market
equilibrium

C. Trade balance

D. Interest rates

Answer: B. Money market
equilibrium

8. Which of the following is
NOT a feature of the

A. ~~long-run~~ ~~monetary~~ approach?
focus

B. Price flexibility

C. Money
neutrality

D. Short-run
rigidities

Answer: D. Short-run
rigidities

9. Under monetary approach, exchange rate adjusts to:

A. Balance trade

B. Equalize interest rates

C. Clear money market

D. Control inflation

Answer: C. Clear money market

10. Monetary approach
assumes prices
are:

A. Sticky

B. Flexible

C. Controlled

D. Random

Answer: B.
Flexible

11. The Asset Market Model is also known as:

- A. Monetary model
- B. Portfolio balance model
- C. Trade model
- D. Keynesian model

Answer: B. Portfolio balance model

12. The model focuses

A. Goods ~~ON:~~
market

B. Labor
market

C. Asset
choices

D. ~~Production~~ ~~asset~~
choices

13. Which asset is NOT considered in the model?

A. Money

B. Bonds

C. Equity

D. Labor

Answer: D.

Labor

14. Portfolio balance model

ASSUMES:

- A. Perfect substitutability
- B. Imperfect substitutability
- C. No capital mobility
- D. Fixed exchange rate

Answer: B. Imperfect substitutability

15. A rise in domestic interest rate leads to:

A. Capital outflow

B. Currency depreciation

C. Capital inflow

D. Trade deficit

Answer: C. Capital inflow

16. Asset market equilibrium

requires:
A. Equal exports and imports

B. Equal money supply and demand

C. Equal asset demand and supply

D. Balanced budget

Answer: C. Equal asset demand and supply

17. In portfolio balance model, exchange rate is determined by:

- A. Trade flows
- B. Capital flows
- C. Government spending
- D. Inflation

Answer: B. Capital flows

18. Which of the following affects asset demand?

- A. Interest rate differentials
- B. Tariffs
- C. Subsidies
- D. Wages

Answer: A. Interest rate differentials

19. Higher risk premium on domestic assets leads

A. More demand to:

B. Less demand

C. No change

D. Higher inflation

Answer: B. Less demand

20. Portfolio diversification

implies:

A. Investing in one asset

B. Avoiding foreign assets

C. Holding multiple assets

D. Selling all assets

Answer: C. Holding multiple assets

21. International liquidity

refers to:

- A. Gold reserves
- B. Foreign exchange reserves
- C. IMF quotas
- D. All of the above

Answer: D. All of the above

22. Which is a
component of

A. Domestic ~~bonds~~
international reserves?

B. Foreign currency
assets

C. Local currency

D. Real estate

Answer: B. Foreign currency
assets

23. A shortage of international liquidity can cause:

A. Trade surplus

B. BOP crisis

C. Currency appreciation

D. Inflation

Answer: B. BOP crisis

24. Which institution monitors global liquidity?

A. World Bank

B. WTO

C. IMF

D. UN

Answer: C.
IMF

25. SDRs are issued by:

- A. World Bank
- B. IMF
- C. UN
- D. ECB

Answer: B.
IMF

26. Which of the following is
NOT a reserve asset?

- A. Gold
- B. SDRs
- C. Foreign
currency
- D. Domestic
currency

Answer: D. Domestic
currency

27. Liquidity problem arises

when
A. Exports rise

B. Imports fall

C. Reserves are inadequate

D. Inflation is low

Answer: C. Reserves are
inadequate

28. Which currency is most used in reserves?

A. Euro

B. Yen

C. Dollar

D. Pound

Answer: C.
Dollar

29. IMF provides liquidity
through:

A. Loans

B. Grants

C. Taxes

D. Tariff

S

Answer: A.
Loans

30. Which is a non-traditional reserve asset?

A. Gold

B. SDRs

C. Foreign bonds

D. Domestic equity

Answer: C. Foreign bonds

31. IMF stands

A. International ^{for} Monetary
Fund

B. International Money
Forum

C. Investment Monetary
Fund

D. International Market
Fund

Answer: A. International Monetary

IMF was established

A. 1944 in:

4

B. 1945

5

C. 1950

D. 193

Answer: B.

1945

33. IMF headquarters is

A. New ~~York~~ ⁱⁿ York

B. London

C. Washington

D.C.

D. Geneva

Answer: C. Washington
D.C.

34. Main purpose of IMF

- is to:*
- A. Promote trade
 - B. Provide development aid
 - C. Ensure monetary cooperation
 - D. Regulate banks

Answer: C. Ensure monetary cooperation

35. IMF provides:

A. Grants

B. Loans

C. Subsidies

D. Taxes

Answer: B.
Loans

36.SDRs

are:

A. Currency

B. Credit

C. Reserve
assets

D. Loans

Answer: C. Reserve
assets

37. IMF quota determines:

A. Voting power

B. Loan
eligibility

C. SDR
allocation

D. All of the
above

Answer: D. All of the
above

38. Which country has highest IMF quota?

A. India

B. China

C. USA

D. Germany

Answer: C.
USA

39. IMF surveillance

means:
A. Spying

B. Monitoring
economies

C. Auditing banks

D. Tax collection

Answer: B. Monitoring
economies

IMF lends

to:

A. Individuals

B. Corporations

C. Governments

D. NGOs

Answer: C.
Governments

World Bank was founded

A. 194⁴in:

4

B. 194

5

C. 195

0

D. 196

0

Answer: A.

1944

World Bank's main

goal is:
A. Trade promotion

B. Monetary stability

C. Poverty reduction

D. Tax collection

Answer: C. Poverty reduction

World Bank

A. Grants provides:

B. Loans

C. Technical
assistance

D. All of the above

Answer: D. All of the
above

World Bank headquarters

- A. ~~New York~~ ^{is in}
- B. London
- C. Washington
D.C.
- D. Paris

Answer: C. Washington
D.C.

Which is *NOT* part of World Bank Group?

A. IBRD

D

B. IMF

C. IDA

D. IFC

Answer: B.

IMF

IBRD lends

- A. Low-income ^{to:}
countries
- B. Middle-income
countries
- C. High-income countries
- D. All countries

Answer: B. Middle-income
countries

IDA provides:

A. Grants

B. Loans

C. Equity

D. Insurance

Answer: A.
Grants

World Bank funds are used

A. ~~Military~~ ^{for}

B. Infrastructure
re

C. Speculation

D. Luxury
goods

Answer: B.
Infrastructure

World Bank supports:

- A. Short-term trade
- B. Long-term development
- C. Currency trading
- D. Stock markets

Answer: B. Long-term development

Which country has highest
voting power in World
Bank?

- A. India
- B. USA
- C. China
- D. Germa
ny

Answer: B.
USA