D 120999 **(Pages : 5)** **Name.....................................**

Reg. No.................................

FOURTH SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2025

(CBCSS)

Economics

ECO 4C 12—INTERNATIONAL FINANCE

(2019 Admission onwards)

Time : Three Hours Maximum : 30 Weightage

Part A

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

1. In the Mundell-Fleming model, the "impossible trinity" refers to the idea that a country cannot simultaneously have :

   (a) A balanced budget, low inflation, and high employment.

   (b) A fixed exchange rate, capital mobility, and an independent monetary policy.

   (c) High-interest rates, low inflation, and high employment.

   (d) A floating exchange rate, fiscal austerity, and high inflation.

2. Brexit refers to :

   (a) The economic crisis in Europe during the late 2000s.

   (b) The decision of the United Kingdom to join the Eurozone.

   (c) The withdrawal of the United Kingdom from the European Union.

   (d) The negotiation of trade agreements between the UK and China.

3. Arbitrage opportunities in the currency market arise due to :

   (a) Central bank interventions.

   (b) Exchange rate stability.

   (c) Inconsistent pricing between markets.

   (d) Fixed exchange rates.

Turn over

4. A country experiences a capital account surplus, this could be due to :

   (a) A decrease in foreign investment.

   (b) A decrease in tourism.

   (c) An increase in overseas remittances.

   (d) A decrease in exports Answer.

5. If a country's currency depreciates and the sum of the price elasticities of demand for imports and exports is greater than 1, according to the Marshall-Lerner condition :

   (a) The trade balance will improve.

   (b) The trade balance will worsen.

   (c) The trade balance will remain unchanged.

   (d) The trade balance will depend on government policies.

6. The monetary approach suggests that a country with a trade deficit can potentially correct it by :

   (a) Increasing government spending.

   (b) Reducing the money supply.

   (c) Depreciating its currency.

   (d) Encouraging imports.

7. Current account convertibility can be limited by :

   (a) Allowing unrestricted foreign investment in the domestic stock market.

   (b) Allowing individuals to freely transfer money abroad for any purpose.

   (c) Implementing import quotas to control the inflow of foreign goods.

   (d) Enabling citizens to exchange domestic currency for foreign currency at any time.

8. The NEER is a useful indicator for assessing a country's :

   (a) Capital account convertibility.

   (b) Current account balance.

   (c) Inflation rate.

   (d) Unilateral transfers.

9. Under a flexible exchange rate system, if a country's currency becomes overvalued due to market forces, what is likely to happen ?

   (a) The central bank will devalue the currency.

   (b) The central bank will appreciate the currency.

   (c) The country will experience capital inflows.

   (d) The country will experience high inflation.

10. An adjustable peg exchange rate system is characterized by :

    (a) Freely fluctuating exchange rates determined by market forces.

    (b) Exchange rates that remain constant over time.

    (c) Central bank interventions to stabilize exchange rates.

    (d) Exchange rates that can be adjusted periodically within certain limits.

11. The primary feature of a dirty float system is that central banks :

    (a) Intervene occasionally to adjust exchange rates.

    (b) Intervene frequently to influence exchange rates.

    (c) Peg their currency to a specific commodity.

    (d) Let exchange rates be determined solely by market forces.

12. In currency futures, the term "long position" refers to :

    (a) Selling the contract.

    (b) Owning the contract to buy a currency.

    (c) Owning the contract to sell a currency.

    (d) Exercising the contract.

13. In a hybrid exchange rate system, exchange rates for certain currencies may be :

    (a) Determined by central banks of individual countries.

    (b) Fixed and unchangeable over time.

    (c) Managed by a single global central bank.

    (d) Determined solely by market forces.

14. FEMA in India was enacted in the year :

    (a) 1991. (b) 2000.

    (c) 2005. (d) 2010.

15. The J-curve effect occurs primarily due to changes in the :

    (a) Money supply.

    (b) Elasticity of demand and supply.

    (c) Government spending.

    (d) Interest rates.

(15 × 1/5 = 3 weightage)

Part B (Very Short Answer Questions)

Answer any **five** *questions.*

Each question carries a weightage of 1.

16. Currency swap.
17. Financial account of BOP.
18. Capital account convertibility.
19. NEER.
20. Asset market model.
21. Dual exchange rate system.
22. Currency boards.
23. FERA.

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

Answer any **seven** *questions.*

Each question carries a weightage of 2.

24. What was the main purpose behind the creation of the Bretton Woods system ?
25. What is dollarization and how does it differ from currency pegging or fixed exchange rate systems ?

26. What are the main components of a country's BOP, and how do they contribute to its overall balance ?

27. How BOP disequilibrium is corrected in a flexible exchange rate system ?

28. What role does the foreign exchange market play in determining exchange rates between currencies ?

29. How does hedging work as a risk management technique for foreign exchange risk ?

30. Elaborate the basic concept behind the J-curve and why it is represented as a "J" ?

31. Who are the main participants in the foreign exchange market and what roles do they play ?

32. What are the key differences between Foreign Institutional Investment (FII) and Foreign Direct Investment (FDI) ?

33. Examine the rationale behind the devaluation of the Indian rupee in 1991.

(7 x 2 = 14 weightage)

Part D (Essay Questions)

Answer any 2 *questions.*
Each question carries a weightage of 4.

34. How does an increase in domestic demand affect a country's imports and exports according to the absorption approach ?

35. What role does capital mobility play in the Mundell-Fleming model, and how does it impact the effectiveness of monetary policy ?

36. Explain the concept of a currency peg in the context of a fixed exchange rate system ?

37. How do multinational corporations (MNCs) influence international trade patterns and global economic integration ?

(2 × 4 = 8 weightage)