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(Pages : 3)

Name.....

Reg. No.....

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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)