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39

THIRD SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2015

(CUCSS)

Economics

EC 03 C09—INTERNATIONAL FINANCIAL SYSTEM

(2010 Admission onwards)

Time : Three Hours Maximum : 36 Weightage

Part A

Answer **all** *questions.*
Each bunch of **four** *questions carries weightage of* 1.

(A) Multiple Choice :

1 Exporters who agree to accept future payments of their foreign customers currency bear :

(a) Exchange rate risk. (b) All transaction cost.

(c) Purchasing power parity. (d) Imbalance of payments.

2 Multinational Corporations :

(a) Increase the transfer of technology between nations.

(b) Make it harder to nations to foster activities of comparative advantage.

(c) Always enjoy political harmony in nations where their subsidiaries operate.

(d) Require governmental subsidies in order to conduct worldwide operations.

3 In the Balance of Payment, unrequited receipts are entered as :

(a) Credit entry. (b) Debit entry.

(c) Separate entry. (d) None of the above.

4 Bilateral aid :

(a) Is technical aid given by IMF.

(b) Is given directly by one country to another.

(c) Is aid with repayment in inconvertible currency.

(d) Is a loan at bankers standards.

Turn over

(B) Multiple choice :

5 A country that is a net international debtor initially experiences a :

(a) Larger savings pool available to finance domestic spending.

(b) Higher interest rate which leads to lower domestic investment.

(c) Loss of funds to trading partners overseas.

(d) Decrease in its services exports to other countries.

6 The supply of foreign currency tends to be :

(a) Upward sloping.

(b) Downward sloping.

(c) Vertical.

(d) Any of the above.

7 The purchasing-power-parity theory has limitations in forecasting exchange rate fluctuat for all of the following reasons except :

(a) Inflation affects exchange rates.

(b) International capital flows affect exchange rates.

(c) Governments sometimes impose trade restrictions such as tariffs and quotas.

(d) Not all products are internationally tradable.

8 The extent to which a change in the exchange rate leads to changes in import and e prices is known as the :

(a) J-Curve effect. (b) Marshall-Lerner effect.

(c) Absorption effect. (d) Pass-through effect.

(C) Fill in the blanks :

9 The notion that, following a currency depreciation, the balance of trade falls for a while l increasing is called a ——— effect.

10 Small nations whose trade and financial relationships are mainly with a single partne to utilize ———.

11 The most widely traded currency in the foreign exchange market is the ———.

12 If a country's currency is over valued in international markets, its ———.

(D) True *or* False :

13 Small nations with more than one major trading partner tend to peg the value of their currencies to gold.

14 The exchange rate is kept the same across geographically-separate markets by arbitrage.

15 Physical delivery foreign exchange has to take place in case of capital market.

16 Consulting firms that use large-scale econometric models to forecast exchange rate movements are engaging in fundamental analysis.

(16 × ¼ = 4 weightage)

Part B

Short answer questions.

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

17 How is monetary approach to balance of payment different from traditional approach ?

18 What are TRIPS and TRIMS ?

19 Distinguish between equilibrium exchange rate and exchange rate over shooting.

20 Explain the concept of Arbitrage.

21 Differentiate between GATT and WTO.

22 Explain J curve effect.

23 Explain Absorption approach.

24 What are constituents of balance of payment accounts ?

25 Briefly explain Devaluation.

26 What are the major factor responsible for the emergence of euro currency markets ?

27 Briefly discuss the merit and demerits of Euro.

28 What is hedging ?

29 Explain exchange rate overshooting.

30 Explain the international bond market.

(10 × 2 = 20 weightage)

Turn over

Part C

Essay questions.

Answer any **three** *not exceeding* **three pages** *each.*

31 Examine the determination of exchange rate under fixed and fluctuating exchange ra systems. Which system do you prefer in the context of developing country ? Give reaso support of you answer.

32 Distinguish between Balance of Payment and Balance of Trade.

33 Explain the method of removing Balance of Payments deficit.

34 What caused the international debt problem of the developing nations in the 1980's.

35 What is Hedging ? Why does edging not usually take place in the spot market ?

(3 × 4 = 12 weighta