

TYBCOM

Paper / Subject Code: 11113 / Business Economics.: Paper VI.

58

Q.P. Code :32367

[Time: 2:30 Hours]

[Marks:75]

Please check whether you have got the right question paper.

- N.B:
1. All questions are compulsory.
 2. Figures to the right indicate full marks.
 3. Draw neat and clear diagrams wherever necessary.

- Q. 1** Attempt **any two** of the following: (15)
- a) According to Ricardo, "the essence of international trade is not the absolute difference in cost but comparative difference in cost". Discuss
 - b) Explain Heckscher-Ohlin theory of international trade with special reference to factor abundance and factor intensity.
 - c) Discuss the various gains from International trade.
- Q. 2** Attempt **any two** of the following: (15)
- a) Explain the structure of balance of payments.
 - b) State and discuss the non-monetary measures for correcting disequilibrium in the balance of payments.
 - c) Discuss the trends in India's balance of payments since 1991.
- Q. 3** Attempt **any two** of the following: (15)
- a) Explain the functions of foreign exchange market.
 - b) Distinguish between spot and forward exchange rates.
 - c) Discuss the role of Hedging and Speculation in the foreign exchange market.
- Q. 4** Attempt **any two** of the following: (15)
- a) Explain how equilibrium rate of exchange is determined with the help of a suitable diagram.
 - b) Discuss absolute version of the purchasing power parity theory.
 - c) Outline role of the Central Bank in foreign exchange market.
- Q. 5** A) State with reasons, whether the following statements are true or false. (**any four**) (08)
- i) If the import prices are greater than export prices, terms of trade are favorable to the country.
 - ii) International trade increases welfare of only exporting countries.
 - iii) Devaluation of domestic currency makes exports costlier and import cheaper.
 - iv) WTO deals with domestic trade.
 - v) Commercial banks participate in the foreign exchange market.
 - vi) Arbitrage helps to equalize exchange rate in different foreign exchange markets.
 - vii) Investment in financial assets abroad will increase the demand for foreign exchange.
 - viii) Flexible exchange rate creates uncertainty among exporters and importers.

- B) Choose the correct answer and rewrite the sentences. (any seven) (07)
- i) Factor endowment theory of international trade was developed by _____.
a) Adam Smith b) David Ricardo c) Heckscher and Ohlim d) Alfred Marshall
 - ii) Commodity terms of trade is also known as _____.
a) Gross barter terms of trade b) Net barter terms of trade
c) Income terms of trade d) Utility terms of trade
 - iii) Reciprocal demand is expressed in terms of _____.
a) demand curve b) offer curve c) supply curve d) none of these
 - iv) Foreign direct investment is included in _____.
a) trade account b) current account c) capital account d) invisible account
 - v) Devaluation results in _____.
a) cheaper exports b) cheaper imports
c) immediate increase in domestic price level d) fall in exports
 - vi) Intellectual property rights take the following forms _____.
a) copy rights b) trade marks c) geographical indications d) all of the above
 - vii) Speculation in foreign exchange market refers to _____.
a) accepting risk to make profit b) careful hedging c) interest arbitrage d) None of these
 - viii) Hedgers operate in forward exchange market to _____.
a) cover the risk b) earn profit c) speculate d) none of these
 - ix) Fixed exchange rate system was _____.
a) unstable b) less stable c) more stable d) flexible
 - x) The relationship between demand for foreign exchange and the exchange rate is _____.
a) inverse b) direct c) positive d) none of these
 - xi) The purchasing power parity theory was introduced by _____.
a) Alfred Marshall b) David Ricardo c) Gustav Cassel d) Adam Smith
 - xii) FEMA stand for _____.
a) Foreign Exchange Marketing Act b) Foreign Exchange Management Act
c) Foreign Entertainment Management Act d) Foreign Equity Management Act
