D 142919 **(Pages : 6)** **Name.................................**

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

FOURTH SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2026

(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. Which statement best describes current account convertibility ?

   (a) Individuals can freely buy and sell foreign currencies for investment purposes.

   (b) Capital movements are restricted, but trade in goods and services is unrestricted.

   (c) Government controls all currency conversions for individuals and businesses.

   (d) There are no restrictions on international trade, capital flows, and currency conversions.

2. Under a fixed exchange rate system, if a country's currency is overvalued concerning its pegged exchange rate, 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.

3. A key advantage of a dirty float exchange rate system is that it provides :

   (a) Currency stability in international trade.

   (b) Consistent and predictable exchange rates.

   (c) Reduced need for central bank interventions.

   (d) Inflation control.

Turn over

4. Currency swaps are commonly used to :

   (a) Speculate on exchange rate movements.

   (b) Borrow foreign currencies at variable rates.

   (c) Hedge against interest rate changes.

   (d) Manage exposure to currency risk.

5. The Mundell-Fleming model suggests that in a small open economy with a flexible exchange rate, an increase in the money supply will likely lead to :

   (a) A decrease in domestic output and employment.

   (b) A decrease in the exchange rate.

   (c) An increase in the exchange rate.

   (d) An increase in imports and a decrease in exports.

6. According to the Marshall-Lerner condition, currency depreciation will lead to an improvement in the Balance of Payments if the :

   (a) Elasticity of import demand is greater than 1.

   (b) Elasticity of export demand is greater than 1.

   (c) Elasticity of import demand is less than 1.

   (d) Elasticity of export demand is less than 1.

7. In the context of the absorption approach, if a country's domestic absorption exceeds its production, it may :

   (a) Experience a trade surplus.

   (b) Experience a trade deficit.

   (c) Not be affected by its Balance of Payments.

   (d) Achieve equilibrium in the capital account.

8. According to the J-curve effect, if a country's currency depreciates, the immediate impact on its trade balance is due to changes in :

   (a) Import quantities. (b) Export quantities.

   (c) Import prices. (d) Export prices.

9. An increase in a country's NEER indicates that its currency has :

   (a) Depreciated against its major trading partners' currencies.

   (b) Appreciated against its major trading partners' currencies.

   (c) Remained unchanged against all currencies.

   (d) Undergone devaluation.

10. Which factor can create challenges for countries operating under an adjustable peg system ?

    (a) Fixed interest rates.

    (b) Frequent fluctuations in exchange rates.

    (c) Limited control over inflation.

    (d) Rapid capital flows.

11. According to PPP theory, if the inflation rate in Country A is higher than the inflation rate in Country B, what is likely to happen to the exchange rate between their currencies ?

    (a) The currency of Country A will appreciate relative to Country B's currency.

    (b) The currency of Country A will depreciate relative to Country B's currency.

    (c) The exchange rate will remain unchanged.

    (d) The exchange rate will be determined by central bank interventions.

12. Which of the following is true regarding the spot exchange rate ?

    (a) It is always higher than the forward exchange rate.

    (b) It is the rate at which currency is exchanged on the date of the transaction.

    (c) It remains constant throughout the trading day.

    (d) It is determined solely by central banks.

13. The main objective of currency arbitrage is to :

    (a) Eliminate the need for currency conversion.

    (b) Take advantage of price differentials between currencies in different markets.

    (c) Speculate on interest rate changes.

    (d) Hedge against currency risk.

14. An increase in a country's REER indicates that its currency has :

    (a) Depreciated against its major trading partners' currencies.

    (b) Appreciated against its major trading partners' currencies.

    (c) Remained unchanged against all currencies.

    (d) Undergone devaluation.

15. The monetary approach suggests that an expansionary monetary policy can lead to :

    (a) Increased exports and decreased imports.

    (b) Decreased exports and increased imports.

    (c) Currency appreciation.

    (d) A decrease in 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. European monetary union.
17. Adjustable peg system.
18. Snake in the tunnel approach.
19. FDI.
20. Capital account convertibility.

21. Arbitrage.
22. Portfolio management.
23. Exchange rate overshooting.

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

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

24. Distinguish between expenditure switching and expenditure changing policies.
25. Explain the concept of absorption capacity and its significance in the absorption approach to the balance of payments analysis.
26. What is the spot market in foreign exchange, and how does it differ from the forward market ?
27. How do fiscal and monetary policies play a role in achieving and maintaining internal balance ?
28. How can foreign direct investment (FDI) contribute to technology transfer and knowledge sharing between countries ?
29. How did the Bretton Woods Conference address concerns about exchange rate fluctuations, currency devaluations, and protectionist policies that characterized the interwar period ?
30. What are the primary advantages of adopting a common currency within an Optimum Currency Area ?
31. How can a depreciation of the domestic currency help correct a BOP deficit? What are the potential risks and benefits of using this method ?
32. Explain the implications of PPP for exchange rate determination. What does PPP suggest about the factors that influence exchange rate changes ?
33. What are the main reasons behind the short-term worsening of the trade balance after a currency depreciation ?

(7 × 2 = 14 weightage)

Turn over

Part D (Essay Questions)

Answer any **two** *questions.*

Each question carries a weightage of 4.

34. What is the elasticity approach to the balance of payments, and how does it differ from other methods of analyzing exchange rate changes ?

35. What is the Mundell-Fleming model, and how does it extend the traditional IS-LM model by incorporating the balance of payments aspect ?

36. What are the Marshall-Lerner conditions, and what do they assess in the context of exchange rate changes?

37. Discuss the economic reasons that could prompt India to devalue its currency in 1991. What are the potential benefits and drawbacks of this decision ?

(2 × 4 = 8 weightage)