

# Chapter 11: Foreign Exchange Rates

## Question 1

**What is the foreign exchange?**

**Ans:** Foreign exchange refers to all currencies other than the domestic currency of a given country.

## Question 2

**Mention the effects of exchange depreciation on exports**

**Ans:** The currency/exchange depreciation leads to an increase in exports.

## Question 3

**State the three functions of the foreign exchange market?**

**Ans:** The three functions of the foreign exchange market are :

- Transfer Function
- Credit Function
- Hedging Function

## Question 4

**What is meant by the spot exchange rate?**

**Ans:** The rate of exchange, which prevails in the spot market at the time when a foreign currency is bought and sold, is termed as the spot exchange rate.

## Question 5

**Define the foreign exchange market.**

**Ans:** The foreign exchange market is the market where foreign currencies are bought and sold.

## Question 6

**What is the shape of the demand curve of foreign exchange?**

**Ans:** The demand curve sloping (due to the inverse relationship between the exchange rate and the demand for foreign exchange)

## Question 7

**Give the meaning of forward exchange rate.**

**Ans:** The exchange rate quoted in the forward transaction is known as the forward exchange rate.