

Open Economy Macroeconomics

Choose the correct alternative.

Question 1.

Other things remaining unchanged, when in a country the price of foreign currency rises, national income is:

- (a) Likely to rise
- (b) Likely to fall
- (c) Likely to rise and fall both
- (d) Not affected

▼ [Answer](#)

Answer: (a) Likely to rise

Question 2.

Foreign exchange transactions dependent on other foreign exchange transactions are called:

- (a) Current account transactions
- (b) Capital account transactions
- (c) Autonomous transactions
- (d) Accommodating transactions

▼ [Answer](#)

Answer: (d) Accommodating transactions

Question 3.

Other things remaining the same, when in a country the market price of foreign currency falls, national income is likely:

- (a) to rise
- (b) to fall
- (c) to rise or to fall
- (d) to remain unaffected

▼ [Answer](#)

Answer: (b) to fall

Question 4.

Foreign exchange transactions which are independent of other transactions in the Balance of Payments Account are called:

- (a) Current transactions
- (b) Capital transactions
- (c) Autonomous transactions
- (d) Accommodating transactions

▼ [Answer](#)

Answer: (c) Autonomous transactions

Question 5.

What is the cause of the devaluation of any country's currency?

- (a) Increase in the domestic inflation rate
- (b) Domestic real interest rates are less than foreign interest rates
- (c) Much increase in the income
- (d) All of these

▼ [Answer](#)

Answer: (d) All of these

Question 6.

The operation of daily nature in the foreign exchange market is known as

- (a) Spot market
- (b) Forward market
- (c) Domestic market
- (d) International market

▼ [Answer](#)

Answer: (a) Spot market

Question 7.

The operation of future delivery in the foreign exchange market is known as

- (a) Spot market
- (b) Current market
- (c) Forward market
- (d) Domestic market

▼ [Answer](#)

Answer: (c) Forward market

Question 8.

Trade of visible items between the countries is known as

- (a) Balance of Payment
- (b) Balance of Trade
- (c) Deficit Balance
- (d) All of these

▼ [Answer](#)

Answer: (b) Balance of Trade

Question 9.

When the import and export of visible items are equal, the situation is known as

- (a) Balance of Trade
- (b) Balance of Payment
- (c) Trade Surplus
- (d) Trade Deficit

▼ [Answer](#)

Answer: (a) Balance of Trade

Question 10.

When there is a favourable balance of trade?

- (a) $X > M$
- (b) $X = M$
- (c) $X < M$
- (d) None of these

▼ [Answer](#)

Answer: (a) $X > M$

Fill in the blanks with the correct word.

Question 11.

_____ rate of exchange refers to the rate of exchange as determined by the government.

▼ [Answer](#)

Answer: Fixed

Question 12.

_____ market deals with such sale and purchase of foreign exchange which are contracted today but are implemented sometimes in the future.

▼ [Answer](#)

Answer: Forward

Question 13.

_____ rate of exchange is also called the free rate of exchange.

▼ [Answer](#)

Answer: Flexible

Question 14.

The balance of _____ is the difference between visible exports and visible imports.

▼ [Answer](#)

Answer: trade

Question 15.

Balance of Payment has _____ accounts.

▼ [Answer](#)

Answer: three

Question 16.

Balance of Payment is always _____

▼ [Answer](#)

Answer: positive

Question 17.

If exports exceed imports, then BoP is _____

▼ [Answer](#)

Answer: favourable

Question 18.

When exports are equal to imports, then it is the situation of _____

▼ [Answer](#)

Answer: equilibrium

Question 19.

Balance of trade includes only _____ items.

▼ [Answer](#)

Answer: visible

[State whether the following statements are true or false. Give reasons.](#)

Question 20.

The difference between the value of exports and imports of goods and services is called a trade balance.

▼ Answer

Answer: False

Balance of trade refers to the relationship between the value of imports and exports of the goods of a country. It does not include invisible items such as services.

Question 21.

'Managed Floating Exchange Rate is decided by market forces but remains within a specific range as decided by the central bank.'

▼ Answer

Answer: True

In this system, the central bank intervenes to minimize fluctuation in the exchange rate.

Question 22.

Excess of foreign exchange receipts over foreign exchange payments on account of accommodating transactions equals deficit in the Balance of Payments.

▼ Answer

Answer: False

Excess of foreign exchange receipts over foreign exchange payments on account of autonomous transactions equals deficit in the Balance of Payments.

Question 23.

Export and import of machines are recorded in the capital account of the Balance of Payments account.

▼ Answer

Answer: False

Export and import of machines are not recorded in capital account as capital account transactions do not involve the movement of goods. Export and import of machines is a part of the Current Account.

Question 24.

The current account of Balance of Payments accounts records only exports and imports of goods and services.

▼ Answer

Answer: False

The current account of the Balance of Payments account also records unilateral transfers along with exports and imports of goods and services.

Question 25.

Foreign investments are recorded in the capital account of Balance of Payments.

▼ [Answer](#)

Answer: True

Foreign investments are recorded in the capital account of Balance of Payments as it involves a change in ownership of assets.

Question 26.

Banking and insurance are examples of visible items.

▼ [Answer](#)

Answer: False

These are services and hence, are part of invisible items.

[Match the alternatives given in Column II with respective terms in Column I.](#)

Question 27.

| Column I | Column II |
|--|--|
| (i) Items of Current Account | (a) Includes only visible items |
| (ii) Items of Capital Account | (b) Above the line items |
| (iii) Balance of Trade | (c) Unilateral transfers |
| (iv) Current Account Balance | (d) Exports will increase |
| (v) Autonomous Transactions | (e) Imports will increase |
| (vi) Accommodating Transactions | (f) Portfolio Investment |
| (vii) Effect of appreciation of the domestic currency | (g) Below the line items |
| (viii) Effect of depreciation of the domestic currency | (h) Includes visible and invisible items |

▼ [Answer](#)

Answer:

| Column I | Column II |
|------------------------------|--------------------------|
| (i) Items of Current Account | (c) Unilateral transfers |
| (ii) Items of Capital | (f) Portfolio |

| Account | Investment |
|--|--|
| (iii) Balance of Trade | (a) Includes only visible items |
| (iv) Current Account Balance | (h) Includes visible and invisible items |
| (v) Autonomous Transactions | (b) Above the line items |
| (vi) Accommodating Transactions | (g) Below the line items |
| (vii) Effect of appreciation of the domestic currency | (e) Imports will increase |
| (viii) Effect of depreciation of the domestic currency | (d) Exports will increase |
