UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

VI SEMESTER

B.A ECONOMICS

(2011 ADMISSION ONWARDS)

CORE COURSE

INTERNATIONAL ECONOMICS

QUESTION BANK

1. Trade In differentiated products refers to
   A. intra industry trade
   B. inter industry trade
   C. trade based on economies of scale
   D. non of the above

2. The terms of trade of developing countries have a secular tendency to
   A. Improve
   B. Deteriorate
   C. first improve and then deteriorate
   D. Remain the same

3. The opportunity cost theory assumes that
   A. Labour is the only factor of production
   B. The price or the cost of a commodity can be determined by the labour content in it
   C. labour is homogeneous
   D. non of the above

4. If a nation gains from trade its consumption point is
   A. On the production possibility frontier (PPC
   B. inside the PPC
   C. above the PPC
   D. any of the above

5. Given below is a table whowing the maximum amount of wheat and cloth that the U K and U S could produce if they fully utilize all the factors of production with the best technology available indicate the comparative advantage of U K and U S.

	U K	U S
Bushels of wheat	50	120
Meters of Cloth	150	80

   A. US have comparative advantage in cloth and U K have comparative advantage in wheat
   B. U K have comparative advantage in cloth and US have comparative advantage in wheat
   C. US have comparative advantage in cloth and wheat
   D. UK have comparative advantage in cloth wheat

6. If a nations terms of trade is ½ its trade partners terms of trade is
   A. 4
   B. 2
   C. 1
   D. ½

7. The H O theory postulates that as a result of trade the differences in factor prices between nations
   A. Diminishes
   B. increases
   C. remains unchanged
   D. any of the above

8. Leontiff paradox refers to the result that the U S
   A. Exports are more capital intensive than imports
   B. Exports are more capital intensive than U S import substitutes
   C. Imports are more capital intensive than U S exports
   D. import substitutes are more capital intensive than U S Exports

9. The Exchange rate is kept the same in all parts of the market through
   A. Exchange rate arbiterage
   B. interest arbiterage
   C. hedging
   D. Speculation.

10. Hedcging refers to
   A. Acceptance of Foreign exchange risk
   B. Covering Foreign exchange risk
   C. Foreign exchange Speculation
   D. Foreign exchange arbiterage

11. A tariff will improve terms of trade of
   A. the opposing offer curve is less than unity and but greater than zero
   B. The elasticity of the opposing offer curve is greater than unity but less than infinity
   C. The elasticity of the opposing offer curve is equal to unity.
   D. The elasticity of the opposing offer curve is equal to zero.

12. If $\{\frac{K}{L}\}_A > \{\frac{K}{L}\}_B$ when K= capital and L= labour, and A and B are countries then
    A. Counry A is labour abundant
    B. Counry A is capital abundant
    C. Counry B is labour abundant
    D. Counry B is capital abundant

13. If $\{\frac{K}{L}\}_A > \{\frac{K}{L}\}_B$ when K= capital and L= labour, and A and B are countries then
    A. In Counry A relative price of labour is low
    B. In Counry A relative price of Capital is low
    C. In Counry B relative price of labour is low
    D. Non of the above

14. In Autarchy a nations PPC also shows its
    A. Consumption function
    B. Sales frontier
    C. profit frontier
    D. factor endowment

15. Opportunity cost theory
    A. is anti thesis of Recardian theory
    B. is a Synthesis of Recardian and Smiths theory
    C. is a reconstruction of the Recardian theory in terms of alternative cost.
    D. Non of the above

16. The paradox that Growth can make a country worse off is termed as
    A. Leontiff Paradox
    B. Rybezinsky Theorem
    C. Immiserising Growth
    D. Triffin Dilemma

17. "Free trade between two countries in H O model will equalize relative factor prices provided there is incomplete specialization." This is
    A. The factor price equalization theorem
    B. Rybezinsky Theorem
    C. Leontiff Paradox
    D. Cascading effect

18. The absolute slope of a concave PPC is given by
    A. Internal equilibrium price ratio
    B. The marginal rate of transformation
    C. Increasing returns to scale
    D. all the above

19. If $\{\frac{Pk}{Pl}\}_A > \{\frac{Pk}{Pl}\}_B$ when K= capital and L= labour, Pk is price of capital and Pl is price of labour and A and B are countries then
    A. Counry A is labour abundant
    B. Counry A is capital abundant
    C. Counry B is labour abundant
    D. Counry B is capital abundant

20. Devaluation works best when
    A. it is accompanied by a decline in short term interest rate
    B. foreign demad for exports is is elastic
    C. demand for forign imports is inelastic
    D. non of the above

21. BOP includes
    A. Current account
    B. Capital Account
    C. Official Reserve account
    D. All the above

22. international trade refers to trade between
    A. two regions of a country
    B. two countries
    C. two commodities produced in different countries
    D. non of the above

23. The trade theory that states that nations should accumulate financial wealth, usually in the form of gold, by encouraging exports and discouraging imports is called
    A. Keynesianism
    B. Individualism
    C. Socialism
    D. Mercantilism.

24. Which among the following are the central themes of Mercantilism?
    A. Export or perish.
    B. Strict focus on the wealth accumulation through protectionism.
    C. No simultaneous gains or sharing of gains among countries are possible. One country can benefit only at the cost of other countries.
    D. All the above.

25. "An Enquiry in to the nature and causes of Wealth of Nations" is written by
    A. J S Mill
    B. David Recardo
    C. Karl Marx
    D. Non of the above

26. Adam Smith identified the basic reason for trade between two nations as
    A. The difference in Absolute advantage
    B. The difference in comparative advantage
    C. Difference in factor endowments
    D. Non of the above.

27. Theory of Absolute advantage is
    A. A rejoinder of Merchantalism
    B. A corollary of merchantalism
    C. Critique of merchantalism
    D. Non of the above.

28. The Absolute advantage theory indicates that a country should engage in the production and exchange of those commodities where it has
    A. a comparative advantage
    B. an absolute advantage
    C. Relative factor endowment
    D. Greater opportunity cost.

29. The ability to produce more of a good or service than competitors, using the same amount of resources is
    A. a comparative advantage
    B. an absolute advantage
    C. Relative factor endowment
    D. Greater opportunity cost.

30. Which among the following are the major assumptions of Absolute advantage theory?
    A. There are two countries and two commodities and one country has absolute advantage in one commodity and the second country has advantage in another commodity.
    B. Labour is the only factor of production and labour is homogeneous, that means each unit of labour produces same level of output. Value of a commodity is measured in terms of its labour content
    C. Labour is perfectly mobile within the country but perfectly immobile between the countries. It means that workers are free to move between industries within the nation but migration to other countries is impossible.
    D. All the above.

31. Absolute advantage theory assumes
    A. No technological change.
    B. No transportation cost
    C. Labour theory of value
    D. All the above

32. The principle of comparative advantage was first introduced by
    A. David Ricardo
    B. J S Mill
    C. Adam Smith
    D. Karl Marx

33. The ability of a firm or individual to produce goods and/or services at a lower opportunity cost than other firms or individuals.
    A. Absolute Advantage
    B. Opportunity cost
    C. Comparative advantage
    D. Non of the above.

34. Major assumptions of the theory of Comparitive advantage are
    A. There are two countries and two commodities and the countries have absolute advantage in both commodities .
    B. Labour is the only factor of production and labour is homogeneous, that means each unit of labour produces same level of output. Value of a commodity is measured in terms of its labour content
    C. Labour is perfectly mobile within the country but perfectly immobile between the countries. It means that workers are free to move between industries within the nation but migration to other countries is impossible.
    D. All the above.

35. Absolute advantage theory assumes
    A. No technological change.
    B. No transportation cost
    C. Labour theory of value
    D. All the above

36. The 'Reciprocal Demand Theory' in International Trade can be attributed to
    A. Adam Smith
    B. David Recardo
    C. J S Mill
    D. Karl Marx

37. The curve that shows howmuch of its import commodity a nation requires in exchange for various quantities of its export commodity is
    A. Demand Curve
    B. Laffer curve
    C. Phillips Curev
    D. Offer Curev

38. Reciprocal Demand Curve is another name for
    A. Demand Curve
    B. Laffer curve
    C. Phillips Curev
    D. Offer Curev

39. The Reciprocal Demand theory was put into graphic form by
    A. Adam Smith
    B. David Recardo
    C. Alfred Marshall and F.Y. Edgeworth
    D. Non of the above

40. The amount of commodity a nation is willing to give up to get an additional unit of another commodity and still remain on the same indifference curve is known as
    A. Marginal rate of substitution
    B. Marginal Rate of transformation
    C. Marginal product
    D. Non of the above

41. ------------theory states that countries which are rich in labour will export labour intensive goods and countries which are rich in capital will export capital intensive goods
    A. The Heckscher Ohlin theorem
    B. Stolper Samuelson Theorem
    C. Leontiff Paradox
    D. Rybezensky theorem.

42. Which among the following is NOT an assumption of H-O Theorem
    A. There are two countries involved. Each country has two factors (labour and capital) and produce two commodities either labour intensively or capital intensively.
    B. There is no perfect competition in both commodity and factor markets. All production functions are hertogenious. Production function is subject to increasing or decreasing returns to scale.
    C. There are no transportation costs.
    D. Factors are freely mobile within a country but immobile between countries.

43. Which among the following is an assumption of H-O Theorem
    A. Each commodity that a nation produce differs in factor intensity. Trade is free
       i.e. there are no trade restrictions in the form of tariffs or non-tariff barriers.
    B. The production function remains the same in different countries for the same
       commodity. For e.g. If commodity A requires more capital in one country then
       same is the case in other country.
    C. There is full employment of resources in both countries and demand is
       identical in both countries.
    D. All the above

44. The HO theory deals with which type of trade?
    A. Intra Industry trade
    B. Trade based on Economies of scale
    C. Trade based on imitation gaps and product cycles
    D. Inter industry tarde

45. The basis for mutually advantageous trade in H O theory is
    A. technology
    B. Factor endowments
    C. economies of scale
    D. tastes.

46. Trade in differentiated products are also called
    A. Intra Industry trade
    B. Trade based on Economies of scale
    C. Trade based on imitation gaps and product cycles
    D. Inter industry tarde

47. Which among the following are the major limitations of the H O theorem?
    A. It explains only a part of the world trade as it ignores trade in differentiated
       products.
    B. Factor endowment is not the sole factor influencing commodity price and
       international trade.
    C. The theory is empirically proved wrong in the case of U S Economy.
    D. All the above.

48. _____states that international trade will bring about equalization in the
    returns to homogeneous factors across countries, even without their physical
    movement.
    A. Theory of comparative advantage,
    B. Stolper-Samuelson Theorem,
    C. Rybczynski Theorem, and
    D. Leontiff paradox.

49. _____states that at constant commodity prices, an increase in the quantity of
    one factor increases the production of the commodity intensive in this factor and
    reduces the output of the other commodity which is intensive in the constant factor.
    A. Theory of comparative advantage,
    B. Stolper-Samuelson Theorem,
    C. Rybczynski Theorem, and
    D. Leontiff paradox.

50. Net barter Terms of Trade is defined as
    A. Px/Pm
    B. G = Qm/Qx X 100
    C. I = Px/Pm X Qx
    D. All the above

51. The foreign exchange rate is NOT
    A. The price of one currency expresses in terms of another.
    B. Rate at which of one commodity expresses in terms of another.
    C. The value of one currency in terms of another
    D. Fixed for ever.

52. _____means the measures adopted for avoiding risks.
    A. Hedging
    B. Speculation
    C. Arbitrage
    D. Non of the above

53. _____ is an open position in the market with an expectation of gains through the fluctuations.
    A. Hedging
    B. Speculation
    C. Arbitrage
    D. Non of the above

54. Under a fixed exchange rate system, _____are official changes in the value of a country's currency relative to other currencies.
    A. devaluation
    B. Depreciation and appreciation
    C. revaluation
    D. Both A and C.

55. _____ is the deliberate downward adjustment in the official exchange rate, reduces the currency's value.
    A. devaluation
    B. Depreciation
    C. revaluation
    D. appreciation.

56. A _____is an upward adjustment in the official exchange rate, which increases the value of the currency.
    A. devaluation
    B. Depreciation
    C. revaluation
    D. appreciation

57. A key effect of devaluation is that it
    A. Makes the domestic currency cheaper relative to other currencies.
    B. Makes the domestic currency dearer relative to other currencies.
    C. Makes the foreign currency cheaper relative to other currencies.
    D. leaves the relative value unchanged.

58. Which among following is NOT an implication of devaluation?
    A. Devaluation makes the country's exports relatively less expensive for foreigners.
    B. Devaluation makes foreign products relatively more expensive for domestic consumers, thus discouraging imports.
    C. Devaluation help to increase the country's exports
    D. May therefore help to reduce the current account surplus.

59. Which among following is an implication of revaluation?
    A. Revaluation makes the country's exports relatively more expensive for foreigners.
    B. Revaluation makes foreign products relatively more expensive for domestic consumers, thus encouraging imports.
    C. Revaluation help to reduce the country's exports to reduce the current account surplus.
    D. All the above

60. Devaluation leads to
    A. Increasing the price of imports and stimulating greater demand for domestic products.
    B. Domestic inflation.
    C. Rise in domestic interest rates.
    D. All the above

61. Which of the following explains the Purchasing power parity theory
    A. The theory states that the exchange rate between one currency and another is in equilibrium when their domestic purchasing powers at that rate of exchange are equivalent.
    B. The theory indicates that exchange rate between two countries should equal to the ratio of similar goods and services in both countries.
    C. The theory explains that a bundle of goods should cost the same in India and Pakistan when we take the exchange rate between them.
    D. All the above.

62. Recardo's Law of Comparitive advantage is based on
    A. Labour theory of value
    B. Opportunity cost
    C. Law of diminishing returns
    D. All the above

63. The exchange rate system that is followed in India is
    A. Fixed Exchange rate system
    B. Flexible exchange rate system
    C. Managed Float system
    D. Non of the above

64. Pure theory of international trade is termed so because
    A. it is based on unrealistic assumptions
    B. It concentrates on static gains
    C. Monetary approaches are absent in them
    D. It is based on deductive reasoning

65. Which among the following is true with regard to the PPP theory?
    A. Greater transportation costs and trade restrictions are between countries, the less likely for the costs of market baskets to be equalized.
    B. Costs of non tradable inputs are not taken into consideration by PPP.
    C. It is based on the concept of law of one price
    D. All the above

66. law of one price prevails when
    A. Transportation costs, barriers to trade (import-export levies, customs duty etc) and other transaction costs (currency conversion fee) are insignificant.
    B. There must be competitive markets for the goods and services in both countries.
    C. The LOOP applies only to tradable goods. LOOP is not applicable to immobile goods such as houses and many services that are local in nature.
    D. All the above

67. _____ is a summary statement of all economic transactions of the residents of a nation with the residents of Rest of the World (ROW) during a particular period of time.
    A. Balance of Payment
    B. Capital account
    C. Official Reserve account
    D. Net exports

68. Which among the following are differences between Balance of Trade and Balance of Payment?
    A. Balance of Trade is defined as 'difference between export and import of goods and services' while Balance of Payment includes not only import and export of goods and services but also financial / capital transfer.
    B. BOT = Net Earning on Exports - Net payment made for imports while BOP = Current Account + Capital Account + or - Balancing item (Errors and omissions)
    C. BOT need not be in balance always While BOP needs to be in balance
    D. All the above

69. If Debit balance in the balance of payment accounts are greater than the Credit balance it leads to
    A. Balance of Payment Surplus.
    B. Balance of Payment deficit
    C. Chronic disequilibrium in BOP
    D. Non of the above

70. When each international transaction undertaken by the residents of a country are entered as a debit and credit entry of equal size, into the balance of payments, the method is known as.
    A. Balance ot Trade
    B. Balance of Payment
    C. Double entry bookkeeping
    D. Non of the above

71. Which among the following best explains the difference between Trade in Invisibles and merchandise trade?
    A. Invisible trade is much more hetnogenious than the merchandise.
    B. Invisibles trade includes shipping, banking and insurance services and payments by residents as tourists abroad. Trade in Merchandise include the Export and import of goods only.
    C. The net of exports and import of visible in Balance of payment accounts is called the merchandise trade balance. The net of exports and import of invisibles or services in Balance of payment accounts is called the services trade balance.
    D. All the above.

72. _____are receipts which the residents of a country receive for free, without making any present or future service transaction in return.
    A. Grants
    B. External borrowings
    C. Unilateral transfers
    D. Non of the above

73. The _____ records all international financial transactions that involve resident of the country concerned- changing either his assets with or his liabilities to a resident of another country.
    A. Current account
    B. Capital account
    C. official reserve account
    D. unilateral transfers.

74. Official reserves consist of
    A. gold,
    B. Special Drawing Rights (SDRs) borrowed from the IMF,
    C. holding of foreign convertible currencies.
    D. All the above

75. Distinguish between autonomous and accommodating items in the balance of payments.
    A. All transactions in the current and capital account are called automatic transactions. Accommodating items are transactions that come under the official reserve account.
    B. Transactions are said to be autonomous if their value is determined independently of the balance of payments. Accommodating items are determined by the net consequences of the autonomous items.
    C. They take place for business or private motive. Accommodating items are required to balance international transactions.
    D. All the above

76. Which among the following sentence is NOT true
    A. Items are said to be above the line (autonomous) or below the line (accommodating).
    B. The sum of the accommodating and autonomous items must be zero, since all entries in the balance of payment s accounts must come under one of the tw3o headings.
    C. A surplus in a nation's balance of payments is given by a net debit balance in the nation's autonomous items and a deficit is given by a net credit balance.
    D. B O P is a systematic statistical statement or record of the character and dimensions of the country's economic relationship with the rest of the world.

77. Which among the following is NOT a measure to correct the balance of payment disequilibrium?
    A. Devaluation
    B. Deflation
    C. Revaluation
    D. Non of the above

78. Tariffs are
    A. Taxes Imposed on imports.
    B. taxes imposed on the consumption of domestic goods
    C. Taxes imposed on the consumption of imported services.
    D. Taxes imposed on the consumption of domestic services.

79. When tariffs are imposed
    A. The prices of imports would increase to the extent of tariff.
    B. The prices of imports would decrease to the extent of tariff.
    C. The prices of imports would increase by a multiplier of tariff
    D. The prices of imports would decrease by a multiplier of tariff

80. What are the major drawbacks of tariffs
    A. They are restrictions to free trade
    B. Tariffs seek to establish equilibrium without removing the root causes of disequilibrium.
    C. Tariffs bring equilibrium by reducing the volume of trade.
    D. All the above

81. Which of the following statement is true
    A. A Depreciation is likely to correct a deficit in BOP when the demand for and supply of foreign exchange is more elastic
    B. A Depreciation is likely to correct a deficit in BOP when the demand for and supply of foreign exchange is less elastic
    C. A Depreciation is likely to correct a deficit in BOP when the demand for foreign exchange is more elastic and the and supply of foreign exchange is less elastic
    D. Non of the above

82. Protectionist trade policy is associated with
    A. Mercantilists
    B. Heckscher and Ohlin
    C. Modern trade theory
    D. WTO

83. Modern trade theory is developed by
    A. Adam Smith
    B. Heckscher and Ohlin
    C. David Recardo
    D. Karl Marx

84. According to _____ even though a country is absolutely disadvantageous in both commodities there is still possibility for trade
    A. Adam Smith
    B. Heckscher and Ohlin
    C. David Recardo
    D. Karl Marx

85. Principles of Political Economy and Taxation is the book of
    A. Adam Smith
    B. Heckscher and Ohlin
    C. David Recardo
    D. Karl Marx

86. Who reoriented comparative advantage theory?
    A. Adam Smith
    B. J M Keynes
    C. Haberler
    D. Karl Marx

87. Haberler reconstituted comparative advantage theory on the basis of _____
    A. Opportunity cost theory
    B. Labour theory of value
    C. money
    D. Non of the above

88. Factor endowment theory is also known as
    A. Heckcher Ohlin Theory
    B. Limit pricing theory
    C. Labour theory of value
    D. Opportunity cost theory

89. The accounting system used in BOP
    A. Double Entry Book Keeping System
    B. The balance of payment system
    C. System of national Accounting
    D. NonE of the above

90. PPP theory is associated with the determination of _____
    A. Exchange Rate
    B. Money value
    C. Tariffs
    D. Quatas

91. The analysis method used in Leontief's study
    A. Factor price equalization theorem
    B. Double Entry Book Keeping System
    C. Input – Output Analysis
    D. NonE of the above

92. India is NOT a _____ abundant nation
    A. Labour
    B. Capital
    C. Human capital
    D. Natural Resources

93. According to HO Model, India should import _____ abundant goods
    A. Labour
    B. Capital
    C. Human capital
    D. Natural Resources

94. When a commodity is produced with low K/L ratio that commodity is _____
    intensive commodity
    A. Labour
    B. Capital
    C. Human capital
    D. Natural Resources

95. A situation where one commodity is capital intensive in one country and labour
    intensive in another country is called
    A. Opportunity cost
    B. Factor price Equalization
    C. Leontiff paradox
    D. Faction intensity reversal

96. According to Rybczyski theorem commodity price should be
    A. Constant
    B. Increasing
    C. Decreasing
    D. Either increasing or decreasing

97. Product transformation curve is also called
    A. Production indifference curves
    B. Production Possibility Frontier
    C. isoquants
    D. All the above

98. Current and capital accounts are examples of
    A. Autonomous transactions
    B. Accommodating transactions
    C. Unilateral transactions
    D. Balance of Trade

99. Paper gold is also known as
    A. US Dollar
    B. Pound sterling
    C. SDR
    D. Indian Rupee.

100. SDR is the official currency of
    A. IMF
    B. World bank
    C. UN
    D. non of the above

ANSWER KEY

1	A	41	A	81	A
2	B	42	B	82	A
3	D	43	A	83	B
4	C	44	A	84	C
5	A	45	C	85	C
6	B	46	D	86	C
7	A	47	A	87	A
8	D	48	B	88	A
9	A	49	C	89	A
10	B	50	A	90	A
11	A	51	B	91	C
12	B	52	A	92	B
13	B	53	B	93	A
14	A	54	A	94	B
15	C	55	A	95	D
16	C	56	C	96	A
17	A	57	A	97	B
18	B	58	D	98	A
19	B	59	D	99	C
20	B	60	D	100	A
21	D	61	D		
22	B	62	A		
23	D	63	C		
24	D	64	C		
25	D	65	D		
26	A	66	D		
27	C	67	D		
28	B	68	D		
29	A	69	B		
30	D	70	C		
31	D	71	D		
32	A	72	C		
33	C	73	B		
34	D	74	D		
35	D	75	D		
36	C	76	C		
37	D	77	D		
38	D	78	A		
39	C	79	A		
40	A	80	D		

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