II BA IV Sem - International Economics Question Bank

Objective Type

1. Distinguish between Inter Regional and Inter National Trade.
   The main differences are factor immobility, natural resources, different Markets, different currencies. The trade between different countries is called International Trade and trade between different regions of the same country is called Inter-regional trade.

2. Give the meaning of Absolute Cost Advantage.
   Every country should specialize in the production of the net commodity which it can produce more cheaply than others and vise versa.

3. What is comparative advantage?
   According to Ricardo each country will specialize in the production of those commodities in which it has the greatest advantage or the least comparative disadvantage.

4. Define The Labour Theory of Value.
   According to The Labour Theory of Value labour is the single factor in determining cost of production or relative values of the product.

5. Write the name of the book written by Bertel Ohlin.
   “The Theory of Inter-Regional and International Trade”.

6. What is Factor Endowment?
   The richness in the availability of factors which keep factor prices very low is called Factor Endowment. It is the abundance of factors.

7. What is Leontief Paradox?
   This is anti thesis or an exemption to factor Endowment theory where by labour abundant countries exporting capital goods and capital abundant countries exporting labour intensive commodities.

8. What is reciprocal demand?
   It is the mutual demand for the goods of respective countries involved in trade. For example American demand for Indian goods and Indian demand for American goods.

9. Define terms of Trade.
   The terms of trade explains the conditions under which international trade takes place. It explains the benefits from trade, the terms of trade are the ratio of exports to imports.

10. Mention any three factors determining terms of trade.
    a. Nature of Products- primary products or manufacturing.
    b. Elasticity of demand or reciprocal demand.
    c. Ability to find domestic substitutes for foreign goods.

11. What is Free Trade Policy?
    According to Adam Smith Free Trade Policy refers to situation where there is no difference between domestic goods and foreign goods and no encouragement to

domestic goods and discriminatory policy on foreign goods. In general free trade policy represents free movement of goods and services between the countries without any restrictions.

12. Mention any three benefits of free trade.
    Wider markets, prevents monopolies, maximum consumer satisfaction and optimum utilization of resource.

13. What is protectionism?
    The term protection refers to a policy where by domestic industries are to be protected from foreign competition. It refers to a type of commercial policy represent more restrictions on foreign trade.

14. Give the meaning of Infant Industry Argument.
    Infant industry refers to newly established industries. They do not posses ability to face foreign firms. The protection given to such industries from foreign giant firms is called Infant Industry Argument. Nurse the baby, protect the child and free the adult.

15. What is anti dumping?
    The foreign goods dumped to domestic markets at very cheaper rates to gain market. This will affect price competition of domestic goods. Therefore to avoid the dumping of cheap foreign commodities to domestic market government impose huge tariffs or put quantitative restriction.

16. What is pauper labour argument?
    The inflow of labour intensive commodities from labour abundant countries destroys higher wages and job opportunities in capitalistic countries. Therefore to protect domestic labour from cheap labour countries is called pauper labour argument.

17. What are tariffs?
    Tariffs refer to the tax imposed on the goods exported and imported. It is also called import duty.

18. Mention any three types of Tariffs.
    a. Revenue tariffs
    b. Protective tariffs
    c. Single column and double column tariffs etc
    d. Specific and advolerum.

19. Define optimum Tariffs.
    It refers to the maximum duties to be imposed on foreign goods without any dislocations or harmful effects.

20. What are Quotas?
    Quotas refer to physical or quantitative restriction on the goods imported and exported by the government. It is fixing quantity to be exported and imported and also licensing system.

21. Mention any three types of Quotas.
    Tariff quota, unilateral quota, bilateral quota, mixing quota, etc.

22. Define foreign exchange.
    It is nothing but foreign currencies which are the means of international payments.

23. What is Exchange Rate?
    The rate at which the foreign currencies are exchanged. It is the relative values of foreign currencies. For example the value of rupee in terms of dollars and vice versa.

24. Distinguish between fixed and flexible exchange rate.
    Fixed exchange rate or an official rate of exchange remains constant for a period of time. But flexible exchange rate automatically changes regularly with changed market condition.

25. What is pegging?
    It is a system where the rate of exchange will not be allowed to change over a particular level. In this system the central bank artificially regulate exchange rate.

26. What is exchange control?
    The government will not allow free exchange of foreign currencies. There will be regulations on exchange of foreign currencies.

27. Distinguish between Balance of Payments and Balance of Trade.
    The Balance of Payments is a comprehensive account of International Trade. It takes into account all types of transactions of a country with the rest of the world. Where as, the Balance of Trade takes only trade accounts or visible and invisible items of trade.

28. Mention the two Accounts in International Trade.
    Current Account and Capital Account.

29. Mention any three causes for Balance of Payments disequilibrium.
    Slow growth of exports, fast increase in imports, exchange rate instability, inflation, etc.

30. What is devaluation?
    It is an artificial reduction of the external value of a currency by the Central Bank or government.

31. Give the meaning of Depreciation.
    It represents deflation of the prices of domestic goods to increase exports.

32. Write the names of Brettonwoods twins.
    IMF and IBRD (The World Bank)

33. What is international liquidity?
    Meeting the demand for foreign currencies to ensure International Payments is called International Liquidity. .

34. What are SDRS?

An artificial drawing rates created by the IMF in the name of member country to meet the additional demand for foreign currencies. It is also called paper gold, because it has to be accepted by all the countries in payments.

International Economics - Question Bank
Part B Analytical type (5 marks)

1. Explain the importance of International Economics.
2. Explain the Absolute Cost Advantage Theory of Adam smith.
3. Point out the factors determining terms of Trade.
4. Discuss the merits of Free Trade Policy.
5. What are the merits and demerits of Flexible Exchange Rate?
6. Explain the effects of Tariffs.
7. What are the effects of Quotas?
8. What are SDRS?
9. Discuss objectives and functions of Asian Development Bank.
10. Explain various methods of Exchange control.
11. Briefly explain types of Economic Integration.
12. Mention the objectives of EEC.

Part C Essay Type (15 Marks)

1. Critically examine the comparative Advantage Theory of International trade of Ricardo.
2. Discuss H-O Theorem of International Trade.
3. Analyze various arguments in favour of protectionism.
4. Describe various methods of correcting Balance of Payments Disequilibrium.
5. Explain the trends in India’s Foreign Trade.
6. What are the causes for the Balance of Payments Disequilibrium in India?
7. Discuss the recent EX-IM policy of India.
8. Analyze the role of Multinational Corporation.
9. Describe the role of Foreign Capital in Economic Development.

10. Analyze the role of IMF in solving International Liquidity.

11. Discuss the Achievements and failures of the World Bank.

12. Analyze objectives and functions of EEC.