

## Practice Test : 16 (Objective)

### Sampurna June 2024

#### Business Economics

#### International Trade

**Q1** The reason why all markets typically have the same exchange rate for a particular currency at any given time is:

- (A) Arbitrage
- (B) Speculation
- (C) Hedging
- (D) Currency futures

**Q2** The following are examples of comparative advantage:

- (A) The capacity of a nation to produce a good or service at the lowest possible cost in relation to other nations
- (B) The capacity of a nation to generate a good or service at a reduced opportunity cost in comparison to other nations.
- (C) Selecting a productive strategy that makes the least amount of the above abundant factors
- (D) (a) and (b)

**Q3** Match the following by choosing the term which has the same meaning:

i) <b>floating exchange rate</b>	ii) <b>fixed exchange rate</b>
iii) <b>pegged exchange rate</b>	a. <b>depreciation</b>
iv) <b>devaluation</b>	b. <b>reevaluation</b>
v) <b>appreciation</b>	c. <b>flexible exchange rate</b>

- (A) (i c); (ii d); (iii b); (iv a))
- (B) (i d); (ii a); (iii b); (iv c)
- (C) (i b); (ii a); (iii d); (iv c)
- (D) (ia); (iid); (iii b); (iv c)

**Q4** Which of the following is true: promoting exports and discouraging imports can help a nation become wealthier?

- (A) Socialism
- (B) Capitalism
- (C) Mercantilism
- (D) Laissez-faire

**Q5** The 'MFN principle' consists of the following:

- (A) Treating every WTO member nation equally with regard to trade-related issues
- (B) You must favor each nation in the same way
- (C) Each member of the WTO shall treat all of its trading partners equally, without bias or discrimination.
- (D) Everything mentioned above

**Q6** A specific tariff can be either of the following:

- (A) A tax on imports calculated as a sum of money per unit of the good.
- (B) A tax on a specific set of imported goods;
- (C) A common import tax applied to all goods imported within a specified time frame;
- (D) A specified percentage of the economic value of an imported good

**Q7** Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X ?

Labour cost (hours) for production of one unit.

	Wheat	Rice
Country X	10	20
Country Y	20	10

- (A) 20 labour hours
- (B) 10 labour hours
- (C) 30 labour hours
- (D) Does not gain anything

**Q8** The following are anti-dumping duties:

- (A)



- Higher import taxes to counteract the impact of exporting companies' unfair practice of imposing lower prices on overseas markets
- (B) Higher import taxes to counteract the impact of exporting firms' heightened competitiveness as a result of government subsidies
- (C) Higher import taxes to counteract the unfair exporting company practice of unfairly charging lower prices on the international market than production costs.
- (D) The previous (a) and (c)
- Q9** Which of these claims about the following is true?
- (A) The term "home currency depreciation" refers to the same concept as "foreign currency appreciation" and indicates that the value of the home currency has decreased comparatively.
- (B) When the price of the foreign currency increases in the home currency, there is a depreciation of the home currency.
- (C) When the price of a foreign currency declines in the home currency, there is either home currency appreciation or foreign currency depreciation.
- (D) Everything mentioned above
- Q10** Select the appropriate statement:
- (A) The goal of the GATT was to stop wealthy nations from taking advantage of developing nations.
- (B) It is mandatory for all World Trade Organisation members to abstain from all forms of tariffs.
- (C) Only trade in goods was covered by the GATT, whereas intellectual property and services are covered by the WTO.
- (D) Everything mentioned above
- Q11** Which of the following sums up the distinctions between domestic and foreign trade?
- (A) Exchanges in various currencies
- (B) Currency and customer homogeneity
- (C) variations in legal frameworks;
- (D) none of the aforementioned
- Q12** Which is the leading country in respect of inflow of FDI to India?
- (A) USA (B) Japan
- (C) Mauritius (D) USA
- Q13** What distinguishes foreign portfolio investment (FPI) from foreign direct investment (FDI)?
- (A) FPI is of a long-term nature, while FDI is typically short-term
- (B) FPI is characterized by a lower stake in companies, while FDI typically has a higher stake
- (C) FPI involves ownership and control, while FDI does not
- (D) FPI is concerned with the manufacture of goods, while FDI is not
- Q14** Which of the following describes a tariff's result?
- (A) Discourage domestic consumers from consuming imported foreign goods and promote consumption of locally produced import substitutes.
- (B) Erect barriers to trade and raise import and export quantities
- (C) Because they now only have to pay a reduced price for the good, domestic consumers enjoy consumer surplus
- (D) Raise the importing nation's government revenue by an amount greater than the total tariff it levies.
- Q15** The Textile and Clothing Agreement:
- (A) Stipulates that gradually deregulating the textile trade and raising tariffs
- (B) Given the authority for textile exporting nations to raise tariffs in order to defend their own textile industries
- (C) Took the place of Multi-Fiber Arrangement (MFA), which had been in use since 1974.
- (D) Required that tariffs be the same in every nation.



**Q16** Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?

- (A) Greenfield investment
- (B) Brownfield investment
- (C) Strategic alliances
- (D) Merger and acquisition

**Q17** 10. Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?

Labour cost (hours) for production of one unit		
	Country A	Country B
Cloth	40	80
Grain	80	40

- (A) Country A
- (B) Country B
- (C) Neither A nor B
- (D) Both A and B

**Q18** Which of the following scenarios best describes why the domestic currency of Country X should strengthen against the US dollar, according to the supply and demand model of exchange rate determination?

- (A) The US chooses not to purchase goods from nation X.
- (B) Country X repaying its debts abroad
- (C) A rise in the amount of money sent home by foreign workers to their families
- (D) A rise in the amount of goods imported by Country X's customers

**Q19** The most contentious item on the unfinished Doha Agenda is:

- (A) Commerce in farm products
- (B) Commerce in goods manufactured
- (C) Commerce in goods protected by intellectual property rights
- (D) Access to the market for products made in developed nations

**Q20** Tariff rate quotas allow countries to:

- (A) Commit to levying tariffs on imports from non-members of preferential trade agreements
- (B)

Goods imported from a nation that receives preferential treatment have a lower tariff applied.

- (C) None
- (D) Allow the import of a limited quantity at low rates of duty but subject the excess to a much higher rate.

**Q21** What is the main characteristic regarding investors?

- (A) Investors actively participate in voting and management decisions
- (B) Investors always aim to control and manage the company
- (C) Investors lack any intention of exercising voting power or controlling the company
- (D) Investors are legally obligated to control the company's affairs

**Q22** What are the different forms of foreign aid or assistance?

- (A) Only bilateral or direct intergovernmental grants
- (B) Only multilateral aid from many governments
- (C) Both bilateral and direct intergovernmental grants and multilateral aid
- (D) Only tied aid with strict mandates regarding the use of money

**Q23** Devaluation of the currency:

- (A) Could result in higher import commodity prices, which would lower home industries' ability to compete globally.
- (B) Could lead to a decrease in export volume and improve consumer welfare by making goods and services more readily available.
- (C) Could result in lower export prices and higher domestic industry competitiveness abroad.
- (D) (a) and (c) previously

**Q24** A percentage-based tax levied on the value of an imported good is referred to as:

- (A) Tariff of preference
- (B) A particular tariff



- (C) Combined or hybrid tariff  
(D) Ad valorem tariff
- Q25** World Trade Organisation (WTO):  
(A) The GATT now stands in for  
(B) Includes a built-in system to resolve conflicts amongst members.  
(C) Was created to guarantee fair and unrestricted trade across international borders.  
(D) (b) and (c) above
- Q26** The problem of 'Double Taxation' in International trade can be overcome by  
(A) Bilateral agreement  
(B) Unilateral agreement  
(C) Group country agreement  
(D) Both a and c
- Q27** New Trade theory propounded by Heckscher - Ohlin assumes:  
(A) Imperfect competition  
(B) Increasing returns to scale  
(C) Product differentiation  
(D) None of the above
- Q28** The theory that emphasizes the role of factor endowments as the basis for trade is known as:  
(A) Absolute advantage theory  
(B) Heckscher-Ohlin theory  
(C) New trade theory  
(D) Porter's diamond model
- Q29** Which is an example of capital inflow?  
(A) A country exporting goods to another country  
(B) A country receiving FDI  
(C) A country borrowing money from an international organisation  
(D) A country granting aid to another country
- Q30** What is Foreign Portfolio Investment?  
(A) Investments in foreign financial markets by domestic investors  
(B) Investments by domestic institutes in foreign companies  
(C) Investment in foreign company to gain significant ownership control  
(D) Investment in foreign currencies for speculative purposes
- Q31** Which theory suggests that nations should produce goods in which they possess the greatest comparative advantage?  
(A) Heckscher-Ohlin Theory  
(B) Factor Endowment Theory  
(C) Modern Theory of International Trade  
(D) None of the preceding
- Q32** How did Ricardo justify the law of comparative advantage?  
(A) Opportunity costs  
(B) The principle of diminishing returns  
(C) Labor-based value theory  
(D) The principle of diminishing returns
- Q33** Choose the incorrect statement with regards to FPI:  
(A) Investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.  
(B) Portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments  
(C) Is effected largely by individuals and institutions through the mechanism of capital market  
(D) Is difficult to recover as it involves purely long-term investments and the investors have controlling interest
- Q34** Which statement aligns with the comparative advantage theory?  
(A) Trade outcomes are zero-sum, indicating no overall change in wealth or benefits for participants.  
(B) The advantages of trade are uncertain and variable.  
(C) Trade outcomes are positive-sum, leading to a net increase in wealth or benefits for participants.



- (D) Trade benefits are contingent upon the endowment and efficient utilization of resources.
- Q35** The nominal exchange rate expresses the units of one currency required to obtain one unit of another currency, while the real exchange rate adjusts for changes in price levels. These claims are:
- (A) Only partially accurate  
 (B) Completely inaccurate  
 (C) Accurate in some situations  
 (D) Entirely accurate
- Q36** All of the following are considered non-tariff barriers (NTBs), with the exception of:
- (A) import quotas  
 (B) export subsidies  
 (C) Import duties  
 (D) product technical standards.
- Q37** The Agreement on Aspects of Intellectual Property Rights Related to Trade:
- (A) Offers most-favorable-nation treatment for intellectual property.  
 (B) Requires each member to uphold strict standards of intellectual property protection.  
 (C) Requires the management of an intellectual property rights enforcement system.  
 (D) All of the above
- Q38** Import tariffs offer benefits to domestic producers of the imported goods due to the following reasons:
- (A) They receive a portion of the tariff income.  
 (B) It increases the price at which they are able to sell and increases their consumer surplus  
 (C) It makes their prices higher than those who are importing  
 (D) It makes them more effective by lowering their producer surplus.
- Q39** An escalating tariff includes:
- (A) Nominal tariff rates that are higher than those on manufactured goods for raw materials
- (B) An increased tariff designed to prevent the import of a specific good in order to safeguard domestic industries  
 (C) Nominal tariff rates that are higher than raw material tariffs on manufactured goods  
 (D) Both A and C
- Q40** Which of the following statements best represents countervailing duty?
- (A) Assessed by the countries of import to guarantee equitable and market-driven prices for goods that are imported.  
 (B) Atax intended to counteract exporters' artificially low prices, which they impose in exchange for tax breaks and export subsidies from their home nation.  
 (C) Assessed by importing nations to safeguard domestic businesses and industries from unfair price advantages brought about by subsidies  
 (D) All of the above options
- Q41** Which of the following represents impact of WTO's obligations on countries correctly?
- (A) Have no impact since they promote global trade and guarantee everyone's prosperity.  
 (B) Have a greater impact on developing nations since they require drastic changes.  
 (C) Negatively impact developed nations since they produce relatively fewer agricultural goods  
 (D) Have an equal impact on developed and developing nations.
- Q42** What is the primary objective of a foreign portfolio investor?
- (A) To actively participate in the management of the invested company  
 (B) To exercise voting power in the companies where they have invested  
 (C) To enhance the productive capacity of the recipient country  
 (D) To generate profitable returns by investing in securities from other invested countries.



- Q43** Which of the following events contributed to the establishment of the World Trade Organization?
- (A) The Tokyo Round  
 (B) The Round of Uruguay  
 (C) The Kennedy Round  
 (D) The Doha Round
- Q44** What does Bound tariff mean?
- (A) The maximum tariff a nation is permitted to impose in accordance with its WTO and GATT obligations on a specific good.  
 (B) The maximum threshold of tariff a nation can put according to will of its ruling government.  
 (C) The range at which the nation's export tariff should decrease to allow for lower-priced exports  
 (D) The tariff threshold below which a country is not permitted to impose import duties
- Q45** What commitments have the governments of WTO members made under the Agreement on Agriculture?
- (A) Export subsidies, domestic assistance, and market access  
 (B) Support for agricultural credit and market access  
 (C) On boosting rural development and agricultural productivity  
 (D) The entire list
- Q46** According to the theory of absolute advantage,
- (A) Nations can enhance their economic status by specializing in producing goods they can manufacture more efficiently than others.  
 (B) Increasing exports and reducing imports are key strategies for boosting national wealth and influence.  
 (C) The price of a good is determined solely by the quantity of labor needed for its production, ensuring stable factor prices.  
 (D) Differences in absolute advantage reflect disparities in factor endowments across nations.
- Q47** Which among the following is correct?
- (A) It is claimed that the fixed exchange rate system is effective and very transparent.  
 (B) The number of local currency units that can be exchanged for one foreign currency unit is known as a direct quote.  
 (C) The amount of local currency units that can be exchanged for one unit of foreign currency is known as an indirect quote.  
 (D) The nation's central bank typically sets exchange rates.
- Q48** An expansion in the foreign exchange supply:
- (A) Purchasing a unit of foreign exchange requires more units of domestic currency.  
 (B) Causes the supply curve to move to the right, which lowers the exchange rate.  
 (C) The foreign currency increases while the home currency decreases  
 (D) Causes the supply curve to move to the right, which raises the exchange rate.
- Q49** "Vehicle Currency" is defined as:
- (A) A currency that is frequently used, as either party's national currency, to represent agreements made between parties in international contracts  
 (B) A highly sought-after currency that is traded internationally  
 (C) A kind of money that the euro area uses to keep exchange rates synchronised, typically based on rate of luxury vehicles.  
 (D) A currency that, though not the national currency of either party involved, is often employed to represent agreements made in international contracts.
- Q50** If French consumers develop a preference for imported goods and consequently increase their purchases from the Spain, what impact does this have, assuming all other factors remain constant?
- (A) The dollar demand curve shifts to the right, causing the Indian Rupee to appreciate  
 (B)



The dollar demand curve shifts to the right, causing the Indian Rupee to depreciate  
(C) The supply of US dollars decreases, resulting in lower import prices

(D) The dollar demand curve shifts to the left, increasing the exchange rate.



## Answer Key

Q1 (A)  
Q2 (B)  
Q3 (B)  
Q4 (C)  
Q5 (D)  
Q6 (A)  
Q7 (B)  
Q8 (D)  
Q9 (D)  
Q10 (C)  
Q11 (B)  
Q12 (C)  
Q13 (B)  
Q14 (A)  
Q15 (C)  
Q16 (A)  
Q17 (B)  
Q18 (C)  
Q19 (A)  
Q20 (D)  
Q21 (C)  
Q22 (C)  
Q23 (C)  
Q24 (D)  
Q25 (D)

Q26 (A)  
Q27 (B)  
Q28 (B)  
Q29 (B)  
Q30 (A)  
Q31 (D)  
Q32 (C)  
Q33 (A)  
Q34 (C)  
Q35 (D)  
Q36 (C)  
Q37 (D)  
Q38 (B)  
Q39 (C)  
Q40 (D)  
Q41 (B)  
Q42 (D)  
Q43 (B)  
Q44 (A)  
Q45 (A)  
Q46 (A)  
Q47 (B)  
Q48 (B)  
Q49 (D)  
Q50 (B)



## Hints & Solutions

### Q1 Text Solution:

The correct reason is:

#### Arbitrage

Arbitrage is the process of buying and selling in different markets to take advantage of price differences. In the context of foreign exchange, if there were different exchange rates for the same currency in different markets at the same time, traders would engage in arbitrage to profit from the price discrepancies. This arbitrage activity tends to equalize the exchange rates across different markets for a particular currency.

### Q2 Text Solution:

The correct answer is:

The capacity of a nation to generate a good or service at a reduced opportunity cost in comparison to other nations.

Comparative advantage is based on the idea that nations should specialize in the production of goods for which they have a lower opportunity cost compared to other nations. This allows for more efficient resource allocation and can lead to mutual gains from trade.

### Q3 Text Solution:

Option B is the correct match.

### Q4 Text Solution:

The correct answer is: Mercantilism

The idea of promoting exports and discouraging imports is associated with mercantilism. Mercantilism is an economic theory and policy that emphasizes the importance of accumulating wealth, especially gold and silver, through a positive balance of trade. This often involves promoting exports to bring in wealth and restricting imports to retain wealth within the country.

### Q5 Text Solution:

The correct statement is:

All of the above as

Each member of the WTO shall treat all of its trading partners equally, without bias or discrimination. The Most Favored Nation (MFN) principle, as stated in option (C), essentially means treating all trading partners equally, which aligns with option (A) as well. Furthermore, by ensuring equal treatment for all nations, option (B) is implicitly covered as well.

The Most-Favored-Nation (MFN) principle, as per the World Trade Organization (WTO), requires each member to extend the same favorable trade terms to all other members, without discrimination. It emphasizes equal treatment and nondiscrimination in trade relations among WTO members.

### Q6 Text Solution:

The correct statement is:

**A tax on imports calculated as a sum of money per unit of the good.**

A specific tariff is a fixed amount of money charged per unit of an imported good. It is not based on the value of the good but rather on the quantity or volume. This distinguishes it from an ad valorem tariff, which is a percentage of the value of the imported goods.

### Q7 Text Solution:

To determine the gains from trade, we need to compare the opportunity costs of producing maize and bajra in each country.

For Country X:

- Opportunity cost of producing one unit of maize = 10 hours of bajra
- Opportunity cost of producing one unit of bajra = 20 hours of maize

For Country Y:

- Opportunity cost of producing one unit of maize = 20 hours of bajra
- Opportunity cost of producing one unit of bajra = 10 hours of maize



Since the countries are engaging in trade at a relative price of 1:1, it means they can exchange one unit of maize for one unit of bajra.

If both countries specialize and trade, Country X can export maize and import bajra. By doing so, Country X can obtain one unit of bajra in exchange for one unit of maize. The opportunity cost for Country X to produce maize is lower (10 hours) compared to the opportunity cost for Country Y (20 hours).

Therefore, Country X gains 10 labor hours by engaging in trade.

The correct answer is:

**10 labour hours**

**Q8 Text Solution:**

The correct statement is:

**The previous (a) and (c)**

Anti-dumping duties are indeed higher import taxes imposed to counteract the impact of exporting companies' unfair practice of imposing lower prices on overseas markets (a practice known as dumping). So, options (a) and (c) correctly describe anti-dumping duties.

**Q9 Text Solution:**

When the price of a foreign currency declines in the home currency, it means that the home currency is becoming stronger relative to the foreign currency, which is home currency appreciation or foreign currency depreciation and vice versa.

Thus the answer is

(D) Everything mentioned above

All three statements, (A), (B), and (C), are true:

- (A) The term "home currency depreciation" refers to the same concept as "foreign currency appreciation" and indicates that the value of the home currency has decreased comparatively.
- (B) When the price of the foreign currency increases in the home currency,

there is a depreciation of the home currency.

- (C) When the price of a foreign currency declines in the home currency, there is either home currency appreciation or foreign currency depreciation.

**Q10 Text Solution:**

The correct statement is:

**Only trade in goods was covered by the GATT, whereas intellectual property and services are covered by the WTO.**

The General Agreement on Tariffs and Trade (GATT) primarily focused on the reduction of tariffs and trade barriers related to goods. The World Trade Organization (WTO) expanded upon the GATT and includes agreements that cover not only trade in goods but also intellectual property and services. Therefore, the GATT's scope was limited to trade in goods, while the WTO has a broader scope that encompasses various aspects of international trade.

**Q11 Text Solution:**

The correct answer that sums up the distinctions between domestic and foreign trade is:

Currency and customer homogeneity

This option captures the key differences between domestic and foreign trade by highlighting the aspects of dealing with different currencies and diverse customer bases in international trade, compared to the more homogeneous nature of domestic trade.

**Q12 Text Solution:**

Mauritius is a leading country in terms of the inflow of Foreign Direct Investment (FDI) into India. The Mauritius route has been historically



popular for FDI inflows due to favorable tax treaties and investment regulations. Investors often route their investments through Mauritius to take advantage of these benefits, making it a significant contributor to FDI inflows into India.

**Q13 Text Solution:**

Foreign Portfolio Investment (FPI) is distinguished from Foreign Direct Investment (FDI) by the extent of ownership and control. FPI typically involves acquiring a lower stake in companies without seeking management or control, emphasizing financial returns. In contrast, FDI involves a higher level of ownership and control, often including management influence. The key difference lies in the level of involvement and influence that investors seek in the companies they invest in within the foreign market.

**Q14 Text Solution:**

The correct statement describing a tariff's result is:

**Discourage domestic consumers from consuming imported foreign goods and promote consumption of locally produced import substitutes.**

Tariffs are taxes imposed on imported goods, and one of their intended effects is to make imported goods more expensive for domestic consumers, thereby discouraging their consumption. This is often done to protect domestic industries and promote the consumption of locally produced goods or import substitutes.

**Q15 Text Solution:**

The correct statement is:

**Took the place of Multi-Fiber Arrangement (MFA), which had been in use since 1974.**

The Textile and Clothing Agreement replaced the Multi-Fiber Arrangement (MFA) and was implemented as part of the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT) in 1995. The agreement aimed to gradually phase out

quotas and restrictions on the textile and clothing trade among World Trade Organization (WTO) member countries.

**Q16 Text Solution:**

**Greenfield investment** refers to a type of Foreign Direct Investment (FDI) that involves the creation of new assets and production facilities in the host country. In a greenfield investment, the investing company builds operations from the ground up, establishing new facilities or infrastructure. This form of FDI allows the investor to start fresh in the host country and has the potential to bring new technologies, employment opportunities, and economic development.

**Q17 Text Solution:**

In this scenario, we should look at the opportunity costs of producing cloth and grain in each country. The opportunity cost is the amount of one good that must be given up to produce one more unit of the other good.

For Country A:

- Opportunity cost of producing one unit of cloth = 40 hours of grain
- Opportunity cost of producing one unit of grain = 80 hours of cloth

For Country B:

- Opportunity cost of producing one unit of cloth = 80 hours of grain
- Opportunity cost of producing one unit of grain = 40 hours of cloth

Comparing the opportunity costs, we find that Country B has a lower opportunity cost for producing grain. Therefore, according to the principle of comparative advantage, Country B should specialize in and produce grain. The correct answer is:

**Country B**

**Q18 Text Solution:**

The correct scenario that best describes why the domestic currency of Country X should strengthen against the US dollar, according to



the supply and demand model of exchange rate determination, is:

**A rise in the amount of money sent home by foreign workers to their families**

When there is an increase in remittances, which is the money sent by foreign workers back to their home country (Country X, in this case), it can create additional demand for the domestic currency. This increased demand, coupled with a constant or reduced supply, can lead to an appreciation of the domestic currency against other currencies, including the US dollar.

**Q19 Text Solution:**

The correct answer is:

**Commerce in farm products**

The Doha Development Agenda, which is a set of trade negotiations conducted by the World Trade Organization (WTO), includes discussions on various issues, but one of the most contentious and challenging aspects has been related to trade in farm products. Agricultural trade has been a source of disagreement, particularly between developed and developing nations, making it a significant and contentious issue in the Doha negotiations.

**Q20 Text Solution:**

The correct statement is:

**Allow the import of a limited quantity at low rates of duty but subject the excess to a much higher rate.**

Tariff rate quotas (TRQs) allow the import of a specified quantity of a particular good at a lower tariff rate. Once that quota is reached, any additional imports of that good are subject to a higher tariff rate. This mechanism is often used to manage and control the quantity of imports while still providing some access to goods at lower tariff rates.

**Q21 Text Solution:**

The main characteristic regarding investors, especially in the context of Foreign Portfolio Investment (FPI), is that **investors lack any intention of exercising voting power or**

**controlling the company.** Typically, investors in FPI focus on financial returns and do not seek to actively participate in voting or management decisions. Their primary goal is to benefit from capital appreciation and dividends rather than exerting control over the affairs of the invested company.

**Q22 Text Solution:**

Foreign aid or assistance comes in various forms, including both bilateral or direct intergovernmental grants and multilateral aid from many governments. Bilateral aid involves one country providing assistance directly to another. Multilateral aid involves contributions from multiple countries or international organizations. Both forms aim to support economic development, alleviate poverty, and address global challenges. Tied aid, with strict mandates on fund utilization, is another form but not the only one in foreign assistance.

**Q23 Text Solution:**

The correct statement is:

**Could result in lower export prices and higher domestic industry competitiveness abroad.**

When a country devalues its currency, it makes its exports cheaper in foreign markets, potentially leading to increased competitiveness abroad. This is because foreign buyers can purchase the country's goods and services at a lower cost when expressed in their own currency. This can boost export volumes and improve the competitiveness of domestic industries on the global stage. Therefore, option (c) is the accurate statement.

**Q24 Text Solution:**

The correct answer is:

**Ad valorem tariff**

An ad valorem tariff is a percentage-based tax levied on the value of an imported good. The term "ad valorem" is Latin for "according to value." This type of tariff is calculated as a



percentage of the imported goods' declared value.

**Q25 Text Solution:**

The correct statement is:

**(b) and (c) above**

The World Trade Organization (WTO) includes a built-in system to resolve conflicts amongst its members, and it was created to promote fair and unrestricted trade across international borders. The General Agreement on Tariffs and Trade (GATT) was replaced by the WTO, which inherited and expanded upon the principles of GATT. So, both statements (b) and (c) are accurate in describing aspects of the WTO.

**Q26 Text Solution:**

Bilateral trade agreements can mitigate double taxation by establishing treaties that allocate taxing rights, encouraging harmonization of tax policies between countries, and promoting mutual recognition and cooperation in tax matters.

**Q27 Text Solution:**

The New Trade Theory posits that industries with increasing returns to scale (economies of scale) can dominate global markets due to cost advantages. This theory suggests that firms can achieve lower average costs as production scales up, leading to price competitiveness and market dominance. Consequently, trade patterns may be influenced not only by comparative advantages but also by economies of scale, shaping global market dynamics.

**Q28 Text Solution:**

The theory that emphasizes the role of factor endowments as the basis for trade is option B: Heckscher-Ohlin theory. This theory suggests that countries will export products that intensively use factors of production that they have in abundance and import products that use factors they lack.

**Q29 Text Solution:**

Receiving Foreign Direct Investment (FDI) involves the direct investment of capital by a

foreign entity into a domestic business or project. This capital inflow can stimulate economic growth, create jobs, and enhance productivity in the recipient country. FDI often brings in new technology, managerial expertise, and access to international markets, contributing to the development of the local economy.

**Q30 Text Solution:**

Foreign Portfolio Investment (FPI) refers to option A: Investments in foreign financial markets by domestic investors. It involves purchasing stocks, bonds, or other financial assets in foreign countries by investors from another country, seeking diversification or higher returns. FPI differs from direct investment in that it doesn't entail obtaining a significant ownership stake or management control in the foreign entities.

**Q31 Text Solution:**

The correct answer is: None of the preceding  
The statement reflects the essence of the Comparative Advantage Theory. According to the Comparative Advantage Theory, nations should specialize in the production of goods for which they have the lowest opportunity cost or the greatest comparative advantage, rather than focusing on absolute advantage or factor endowments.

**Q32 Text Solution:**

Value theory based on labor is correct.  
David Ricardo used the value theory based on labor to explain the law of comparative advantage. The concept is that the relative opportunity costs of producing goods determine comparative advantage, and these opportunity costs can be measured in terms of the labor required for production. This idea laid the foundation for the theory of comparative advantage in international trade.

**Q33 Text Solution:**

The false statement regarding Foreign Portfolio Investment (FPI) is: **"Is difficult to recover as it involves purely long-term investments and the investors have controlling interest."** This statement is inaccurate because FPI typically involves short to medium-term investments in financial assets like stocks and bonds, and investors usually do not seek controlling interests or long-term control over the companies in which they invest. FPI is more focused on financial returns rather than exerting control or management.

**Q34 Text Solution:**

The correct statement in line with the comparative advantage theory is:

Trade is a positive-sum game, resulting in a positive net change in participants' wealth or benefits.

The comparative advantage theory suggests that trade allows nations to specialize in the production of goods in which they have a comparative advantage, leading to increased efficiency and a positive sum gain in overall wealth and benefits for the participating nations.

**Q35 Text Solution:**

This statement is:

**Entirely accurate**

The nominal exchange rate represents the units of one currency needed to exchange for one unit of another currency. The real exchange rate adjusts the nominal exchange rate for changes in price levels to provide a more accurate measure of the relative value of currencies. Therefore, the claims are entirely accurate.

**Q36 Text Solution:**

The correct answer is:

**tariffs**

Import Duties are not considered non-tariff barriers; they are, in fact, a form of tariff barrier. Non-tariff barriers (NTBs) refer to various measures other than tariffs that can be used to restrict international trade. Import quotas,

export subsidies, and product technical standards are examples of non-tariff barriers. Tariffs, on the other hand, are taxes imposed on imported goods, and they fall under the category of tariff barriers.

**Q37 Text Solution:**

The correct statement is:

**Everything mentioned above**

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) does indeed include provisions related to national treatment and most-favored-nation treatment for intellectual property. It also requires members to establish and maintain a system for the protection and enforcement of intellectual property rights and sets certain standards for intellectual property protection that member countries are obligated to uphold. Therefore, all the statements mentioned above are correct in the context of the TRIPS Agreement.

**Q38 Text Solution:**

The correct statement is:

**It increases the price at which they are able to sell their goods on the local market.**

Domestic producers of imported goods can benefit from an import tariff because it effectively increases the price of the imported goods. This can make the domestically produced goods more competitive in the local market, as the higher price of the imported goods may lead consumers to choose the cheaper, domestically produced alternatives. This can boost sales and profits for domestic producers.

**Q39 Text Solution:**

The correct statement for an escalating tariff is:

**Nominal tariff rates that are higher than raw material tariffs on manufactured goods**

An escalating tariff refers to a tariff structure where the rates increase with the level of processing or value-added in the product. In this case, the tariff rates on the final manufactured goods are higher than those on



the raw materials used in the manufacturing process. This is often done to protect domestic industries at different stages of production and to encourage domestic processing of raw materials.

**Q40 Text Solution:**

The correct statement is:

**Every item listed above**

A countervailing duty is indeed assessed by importing nations to safeguard domestic businesses and industries from unfair price advantages brought about by subsidies. It is a tax intended to counteract exporters' artificially low prices, which may result from subsidies provided by their home nation. This measure aims to level the playing field and protect domestic industries from unfair competition.

**Q41 Text Solution:**

The correct statement is:

**Have a greater impact on developing nations since they require drastic changes.**

The obligations of the World Trade Organization (WTO) can have a greater impact on developing nations as they often require these countries to make significant adjustments to their trade policies and practices. Developing nations may face challenges in meeting certain trade-related obligations, and the impact can vary depending on the specific measures and agreements involved.

**Q42 Text Solution:**

The primary intention of a foreign portfolio investor (FPI) is **to earn a remunerative return through investment in foreign securities**. FPIs focus on financial returns rather than exerting control or actively participating in the management of the invested companies. They seek opportunities to invest in financial instruments such as stocks and bonds, aiming to benefit from capital appreciation, dividends, and other financial gains in the global market.

**Q43 Text Solution:**

The correct statement is:

**The Round of Uruguay**

The World Trade Organization (WTO) was founded as a result of the Uruguay Round of trade negotiations. The negotiations took place between 1986 and 1994 and resulted in the establishment of the WTO in 1995. The Uruguay Round expanded upon the earlier General Agreement on Tariffs and Trade (GATT) and addressed various issues related to trade, leading to the creation of the WTO.

**Q44 Text Solution:**

The correct statement is:

**The maximum tariff a nation is permitted to impose in accordance with its WTO and GATT obligations on a specific good.**

"Bound tariff" refers to the maximum tariff rate that a country has committed to, and it represents the ceiling or limit on the tariffs that the country can impose on a specific good under its World Trade Organization (WTO) and General Agreement on Tariffs and Trade (GATT) obligations. This commitment is made during trade negotiations, and it ensures a degree of predictability and stability in international trade relations.

**Q45 Text Solution:**

The correct statement is:

**Export subsidies, domestic assistance, and market access**

The Agreement on Agriculture (AoA) under the World Trade Organization (WTO) includes commitments by member governments in areas such as reducing and disciplining export subsidies, providing information on domestic support measures, and improving market access for agricultural products. So, the commitments relate to export subsidies, domestic assistance, and market access.

**Q46 Text Solution:**

The correct statement according to the absolute advantage theory is:



By specializing in the production of goods they can produce more efficiently than anyone else, nations can improve their economic standing.

This is a fundamental idea in absolute advantage theory, which suggests that a nation should focus on producing goods in which it has an absolute efficiency or productivity advantage over other nations. This specialization can lead to increased efficiency, productivity, and overall economic well-being.

**Q47 Text Solution:**

The correct statement is:

**The number of local currency units that can be exchanged for one foreign currency unit is known as a direct quote.**

In a direct quote, the exchange rate expresses the amount of the local currency required to purchase one unit of the foreign currency. Therefore, the number of local currency units is quoted directly in relation to one unit of the foreign currency.

**Q48 Text Solution:**

The correct statement is:

**Causes the supply curve to move to the right, which lowers the exchange rate.**

In the foreign exchange market, an expansion in the supply of foreign exchange means that there is an increase in the availability of the foreign currency relative to the domestic currency. This increased supply typically leads to a decrease in the exchange rate (the value

of the domestic currency in terms of the foreign currency). Therefore, option (d) is the accurate statement.

**Q49 Text Solution:**

The correct definition is:

**A currency that, despite not being either party's national currency, is frequently used to represent agreements made between parties in international contracts**

A "vehicle currency" is a currency that is commonly used as a reference or intermediary in international transactions and agreements, even if it is not the national currency of either party involved in the transaction. It serves as a standard for pricing and settlement in international trade and finance.

**Q50 Text Solution:**

The correct statement is:

**The dollar demand curve shifts to the right, causing the Indian Rupee to depreciate**

If Indian consumers decide to purchase more goods from the US, there is an increased demand for US dollars to make those purchases. According to the supply and demand model of exchange rate determination, an increase in demand for a currency (in this case, the US dollar) tends to lead to an appreciation of that currency. Therefore, the Indian Rupee would depreciate relative to the US dollar in this scenario.



[Android App](#) | [iOS App](#) | [PW Website](#)