



CA Foundation – New Syllabus  
Business Economics

Chapter 9  
**INTERNATIONAL TRADE**

**New MCQs by MVSIR**

MCQ Compiler by MVSIR

New MCQs by MVSIR

UNIT 1

1 \_\_\_\_\_ is the exchange of goods and services as well as resources between countries and involves transactions between residents of different countries.

- a) Domestic Trade
- b) Regional Trade
- c) International Trade
- d) All of the above

2 Which of the following is an argument against international trade?

- a) Facilitates economic efficiency & contributes to economic growth and rising incomes.
- b) Exports stimulate economic growth by creating jobs
- c) Reduction in domestic monopoly
- d) Usage of labor-saving technologies will decrease demand for unskilled workers

2 Which of the following is an argument in support of international trade?

- a) Domestic companies get outperformed by financially stronger transnational companies.
- b) Excessive stress on exports and profit-driven exhaustion of natural resources due to unsustainable production and consumption leads to environmental damage.
- c) Trade strengthens bonds between nations, thus promotes harmony and cooperation
- d) Trade may breed rivalry among countries on account of severe competition

4 In which theory of international trade is based on maximizing exports to bring in more "specie" (precious metals) and minimizing imports through the state imposing very high tariffs on foreign goods?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Advantage
- d) Heckscher-Ohlin Theory of Trade

5 In which theory, international trade is a 'zero-sum game', with winners who win, does so only at the expense of losers and one country's gain is equal to another country's loss?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

6 Which theory of international trade is given by Adam Smith?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

7 In which theory of international trade, exchange of goods between two countries will take place only if each of two countries can produce one commodity at an absolutely lower production cost than the other country

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

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8 As per which theory, mutually gainful trade is not possible

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

The table below shows number of labour hours required to produce wheat and cloth in two countries X and Y

Commodity	Country X	Country Y
1 unit of cloth	4	1.0
1 unit of wheat	2	2.5

Answer the following MCQs 9 to 12 using above table-

9 What is productivity of labour of country X in producing cloth

- a) 4.00
- b) 0.40
- c) 0.50
- d) 0.25

10 What is productivity of labour of country Y in producing wheat

- a) 1.00
- b) 2.50
- c) 0.40
- d) 0.50

11 Which country has absolute advantage in the production of wheat?

- a) Country X
- b) Country Y
- c) Both X & Y
- d) None of the above

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12 Which country shall specialize in production of cloth & export it?

- a) Country X
- b) Country Y
- c) Both X & Y
- d) None of the above

The table below shows the output of Wheat and Rice by using one hour of labour time in country A and country B -

Goods	Country A	Country B
Wheat (Quintal /hour)	10	5
Rice (Quinta/hour)	5	10

Answer the following MCQs 13 & 14 using above table-

13 What is productivity of labour of country B in producing rice

- a) 10.00
- b) 0.10
- c) 0.20
- d) 5.00

14 Which country has an absolute advantage over other country in production of wheat?

- a) Country A
- b) Country B
- c) Both A & B
- d) None of the above

Countries Rose Land and Daisy land have a total of 4000 hours each of labour available each day to produce shirts and trousers. Both countries use equal number of hours on each good each day. Rose Land produces 800 shirts and 500 trousers per day. Daisy land produces 500 shirts and 250 trousers per day.

Answer the following MCQs 15 to 17 using above table.

- 15 Which country has absolute advantage in producing shirts ?  
a) Rose Land  
b) Daisy Land  
c) Both Rose Land & Daisy Land  
d) None of the above
- 16 Which country has absolute advantage in producing trousers  
a) Rose Land  
b) Daisy Land  
c) Both Rose Land & Daisy Land  
d) None of the above
- 17 As per theory of comparative advantage, daisy land should specialize in production and export which good ?  
a) Trousers  
b) Shirts  
c) Both shirts & trousers  
d) None of the above
- Countries China & India have a total of 6000 hours each of labour available each day to produce shirts and trousers. Both countries use equal number of hours on each good each day. China produces 1000 shirts and 300 trousers per day. India produces 300 shirts and 200 trousers per day. Answer the following MCQs 18 & 19 using above table.
- 18 Which country has comparative advantage in producing Shirts?  
a) India  
b) China  
c) Both India & China  
d) None of the above
- 19 What is opportunity cost of shirts in terms of trousers in India?  
a) 0.30  
b) 3.33  
c) 0.67  
d) 1.50
- 20 A country tends to specialize in the export of a commodity whose production requires intensive use of its abundant resources  
a) Mercantilists' View of International Trade  
b) Theory of Absolute Advantage  
c) Theory of Comparative Adv.  
d) Heckscher-Ohlin Theory of Trade
- 21 'Factor endowment' refers to \_\_\_\_\_ in a country  
a) the overall availability of usable resources  
b) the overall level of production  
c) Absolute advantage  
d) Comparative advantage
- 22 As per Heckscher-Ohlin Theory of Trade, which country shall produce and export capital-intensive goods?  
a) Labour abundant country  
b) Capital abundant country  
c) Both a & b  
d) None of the above
- 23 Who gave the theory of comparative advantage?  
a) Adam Smith  
b) Haberler  
c) Paul Krugman  
d) David Ricardo
- 24 Which of the following is a two-factor model ?  
a) Mercantilists' View of International Trade  
b) Theory of Absolute Advantage  
c) Theory of Comparative Advantage  
d) Heckscher-Ohlin Theory of Trade

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- 25 Which theory considers labour as sole factor of production?  
a) Modern Theory of Trade  
b) Theory of Absolute Advantage  
c) Theory of Comparative Advantage  
d) Both b & c
- 26 Which theory is based on labour theory of value  
a) Mercantilists' View of International Trade  
b) New Trade Theory  
c) Theory of Comparative Adv.  
d) Heckscher-Ohlin Theory of Trade
- 27 Who gave the new trade theory?  
a) Adam Smith  
b) Haberler  
c) Paul Krugman  
d) David Ricardo
- 28 According to NTT, two key concepts give advantages to countries that import goods to compete with products from the home country  
a) Economies of Scale  
b) Network Effects  
c) Lower opportunity cost  
d) Both a & b
- 29 \_\_\_\_\_ refer to the way one person's value for a good or service is affected by its value to others. The value is enhanced as number of individuals using it increases  
a) Economies of Scale  
b) Network Effects  
c) Lower opportunity cost  
d) Both a & b
- 30 Who wrote "In Praise of Cheap Labor" in 1997?  
a) Adam Smith  
b) Haberler  
c) Paul Krugman  
d) David Ricardo

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ANSWER KEY - Chapter 9 - New MCQs by MVSIR (Unit 1)

1	C	6	B	11	A	16	A	21	A	26	C
2	D	7	B	12	B	17	B	22	B	27	C
3	C	8	A	13	A	18	B	23	D	28	D
4	A	9	D	14	A	19	C	24	D	29	B
5	A	10	C	15	A	20	D	25	D	30	C

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New MCQs by MVSIR

UNIT 2

1 \_\_\_\_\_ refers to opening up of domestic markets to goods and services from the rest of the world by bringing down trade barriers

- a) Protectionism
- b) International Trade
- c) Trade Liberalisation
- d) Free Trade

2 \_\_\_\_\_ is a state policy aimed to protect domestic producers against foreign competition through the use of tariffs, quotas and non-tariff trade policy instruments

- a) Protectionism
- b) International Trade
- c) Trade Liberalisation
- d) Free Trade

3 Under \_\_\_\_\_ buyers and sellers from separate economies voluntarily trade with minimum of state interference

- a) Protectionism
- b) International Trade
- c) Trade Liberalisation
- d) Free Trade

4 \_\_\_\_\_ encompasses all instruments that governments may use to promote or restrict imports and exports

- a) Protectionism
- b) Trade Policy
- c) Trade Liberalisation
- d) Free Trade

5 \_\_\_\_\_ is defined as financial charge in the form of a tax, imposed at the border on goods going from one country to another. They are most visible and universally used trade measures

- a) Embargo
- b) Voluntary Export Restraint
- c) International Tax
- d) Tariffs

6 \_\_\_\_\_ is a fixed amount of money per physical unit or according to the weight or measurement of the commodity imported or exported

- a) Ad Valorem Tariff
- b) Compound Tariff
- c) Mixed Tariff
- d) Specific Tariff

7 \_\_\_\_\_ is a tariff where duty is levied as fixed percentage of value of traded commodity.

- a) Ad Valorem Tariff
- b) Compound Tariff
- c) Mixed Tariff
- d) Specific Tariff

8 \_\_\_\_\_ is calculated by adding up a specific duty to an ad valorem duty.

- a) Technical Tariff
- b) Compound Tariff
- c) Mixed Tariff
- d) Specific Tariff

9 Calculate compound tariff if-  
Specific Tariff (ts) = Rs 100/unit  
Qty imported = 4,500 units  
Price = Rs 50/unit  
Ad valorem tariff = 6%

- a) Rs 4,650
- b) Rs 4,50,000
- c) Rs 4,63,500
- d) Rs 27,000

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10 \_\_\_\_\_ is calculated on the basis of the specific contents of the imported goods i.e. duties are payable by its components or related items

- a) Variable Tariff
- b) Technical Tariff
- c) Escalated Tariff
- d) Preferential Tariff

11 \_\_\_\_\_ is a duty typically fixed to bring the price of an imported commodity up to level of the domestic support price for the commodity

- a) Variable Tariff
- b) Bound Tariff
- c) MFN Tariff
- d) Preferential Tariff

12 \_\_\_\_\_ is a tariff. It is set so high that no imports can enter

- a) Countervailing duties
- b) Bound Tariff
- c) Prohibitive Tariff
- d) Preferential Tariff

13 In case of \_\_\_\_\_ a WTO member binds itself with legal commitment not to raise tariff rate above a certain level (maximum level of import duty). A member is always free to impose a tariff that is lower than this level

- a) Countervailing duties
- b) Bound Tariff
- c) MFN Tariff
- d) Preferential Tariff

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14 Countries affected by 'unfair' foreign-trade practices, get back quickly by measures in form of tariff responses to offset the distortion

- a) Tariffs as Response to Trade Distortions
- b) "trigger-price" mechanisms
- c) Prohibitive Tariff
- d) Both a & b

15 Dumping occurs when manufacturers sell goods in a foreign country-

- a) below the sales prices in their domestic market
- b) below their full average cost of the product
- c) below the variable cost of the product
- d) Both a & b

16 \_\_\_\_\_ is a protectionist tariff that a domestic govt imposes on imports that it believes are priced below fair market value

- a) Countervailing duties
- b) Escalated Tariff
- c) Prohibitive Tariff
- d) Anti-dumping duty

17 A 4% tariff on import of cloth (raw material) and a 12% tariff on import of shirt (manufactured good), is an example of-

- a) Variable Tariff
- b) Technical Tariff
- c) Escalated Tariff
- d) Preferential Tariff

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18 \_\_\_\_\_ is charged in an importing country to offset advantage that exporters get from subsidies (from their govt.) to ensure fair pricing of imported goods and thus protecting domestic firms

a) Variable Tariff  
b) Technical Tariff  
c) Countervailing duties  
d) Anti-Dumping Tariff

19 Assume that Rs 0.15/unit specific tariff is levied by the government on every sunglass which is imported into India, and if 2000 sunglasses are imported and price of each sunglass is Rs 1000/-, then find out the amount of total tariff revenue collected by the government?

a) Rs 20,00,000  
b) Rs 150  
c) Rs 300  
d) Rs 3,00,000

Goods X	Country A (in \$)	Country B (in \$)	Country C (in \$)
Average Cost	30.5	29.4	30.9
Price per Unit for domestic Sales	31.2	31.1	30.9
Price charged in country D	31.9	30.6	30.6

As per the above table answer the MCQs 20 & 21

20 Which of three exporters engage in anti-competitive act in the international market while pricing its export of good X to country D?

a) Only A  
b) A & B  
c) A, B & C  
d) B & C

21 Advise remedy available for country D in above case?

a) Country D can charge countervailing duty  
b) Country D can charge anti-dumping-duty  
c) Country D can charge Escalated Tariff  
d) Country D can charge Technical Tariff

22 What do you think the implications on trade will be if India pays an export subsidy of Rs 500 /- on every pair of cotton trousers exported by it to Germany

a) Germany can charge countervailing duty  
b) Germany can charge anti-dumping-duty  
c) Germany can charge Escalated Tariff  
d) Germany can charge Preferential Tariff

23 \_\_\_\_\_ combines two policy Instruments: quotas and tariffs. Imports entering under specified quota portion are subject to lower or zero tariff rate. Imports above quantitative threshold face a higher tariff

a) Variable Tariff  
b) Tariff Rate Quota  
c) Applied duties  
d) Preferential Tariff

24 Which of the following is not an effect of tariffs

a) Create obstacles to trade, decrease imports & exports  
b) Discourages domestic consumers from buying imported goods  
c) Tariffs decrease government revenues of importing country  
d) Domestic consumers get more consumer surplus

25 \_\_\_\_\_ are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both

a) Variable Tariff  
b) Technical Tariff  
c) Non-tariff measures  
d) Anti-Dumping Tariff

26 Assertion (A): NTMs are not the same as non-tariff barriers Reason (R): Non-tariff barriers are discriminatory non-tariff measures imposed by governments to favour domestic over foreign suppliers Choose the correct option-

a) Assertion is true, and R is the correct explanation of it  
b) Assertion is false, and R is the correct explanation of it  
c) Assertion is false, but R is not the correct explanation of it  
d) Assertion is true, but R is the correct explanation of it

27 \_\_\_\_\_ are applied to protect human, animal or plant life from risks arising from additives, pests, etc. or disease-causing organisms and to protect biodiversity

a) Technical Barriers To Trade  
b) Standards and Technical Regulations  
c) Sanitary & Phytosanitary (SPS) Measures  
d) Non-technical Measures

28 Prohibition of import of poultry from countries affected by avian flu, is an example of \_\_\_\_\_

a) Technical Barriers To Trade  
b) Standards and Technical Regulations  
c) Sanitary & Phytosanitary (SPS) Measures  
d) Non-technical Measures

29 \_\_\_\_\_ covers both food and non-food products - refer to mandatory 'Standards and Technical Regulations' - define specific characteristics that product should have, like size, design, packaging, etc

a) Technical Barriers To Trade  
b) Standards and Technical Regulations  
c) Sanitary & Phytosanitary (SPS) Measures  
d) Non-technical Measures

30 Food laws, quality standards, industrial standards, organic certification, eco-labelling, and marketing and label requirements- are examples of-

a) Technical Barriers To Trade  
b) Standards and Technical Regulations  
c) Sanitary & Phytosanitary (SPS) Measures  
d) Non-technical Measures

31 \_\_\_\_\_ are set below the free trade level of imports and are usually enforced by issuing licenses.

a) Import Quota  
b) Binding Quota  
c) Non-binding Quota  
d) Price Control Measures

32. Requirement to use certain minimum levels of locally made components, Restricting the level of imported components. These are examples of-

a) Financial Measures  
b) Price Control Measures  
c) Distribution Restrictions  
d) Trade-Related Investment Measures

33. \_\_\_\_\_ is a total ban imposed by government on import or export of some commodities to particular country for a specified period

a) Embargos  
b) Safeguard Measures  
c) Distribution Restrictions  
d) Administrative Procedures

34. \_\_\_\_\_ is a refer to a type of informal quota administered by an exporting country voluntarily restraining the quantity of goods that can be exported out of that country during a specified period of time

- a) Ban on exports  
b) Export Taxes  
c) Export Subsidies & Incentives  
d) Voluntary Export Restraint

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ANSWER KEY - Chapter 9 - New MCQs by MVSIR (Unit 2)

1	C	6	D	11	A	16	D	21	B	26	A	31	B
2	A	7	A	12	C	17	C	22	A	27	C	32	D
3	D	8	B	13	B	18	C	23	B	28	C	33	A
4	B	9	C	14	D	19	C	24	D	29	A	34	D
5	D	10	B	15	D	20	D	25	C	30	A		

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New MCQs by MVSIR

UNIT 3

1. Generalized System of Preferences is an example of-

a) Unilateral trade agreements  
b) Customs union  
c) Regional Preferential Trade Agreements  
d) Bilateral Agreements

2. \_\_\_\_\_ is group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the group

a) Free-trade area  
b) Customs union  
c) Regional Preferential Trade Agreements  
d) Common Market

3. \_\_\_\_\_ has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries. Eg- Arab League (AL)

a) Trading Bloc  
b) Customs union  
c) Regional Preferential Trade Agreements  
d) Common Market

4. \_\_\_\_\_ is a type of RTA which provides for free flow of output and of factors of production by reducing or eliminating internal tariffs on goods and by creating a common set of external tariffs.

a) Trading Bloc  
b) Customs union  
c) Economic and Monetary Union  
d) Common Market

5. GATT lost its relevance by the 1980s because-

- a) international investments had expanded substantially  
b) intellectual property rights and trade in services were not covered  
c) world merchandise trade increased by leaps and bounds and was beyond its scope  
d) All of the above

6. \_\_\_\_\_ marked the birth of the World Trade Organization (WTO)

- a) July 1, 1998  
b) June 1, 1995  
c) April 15, 1994  
d) July 1, 1995

7. \_\_\_\_\_ is the only global international organization dealing with the rules of trade between nations

- a) World Bank  
b) International Monetary Fund  
c) World Trade Organization (WTO)  
d) United Nations

8. Which of the following is not the objective of WTO?

- a) to set and enforce rules for international trade  
b) to provide a forum for negotiating and monitoring further trade liberalization  
c) to resolve trade disputes  
d) to decrease the transparency of decision-making processes

9. WTO has a \_\_\_\_\_ system of decision making

- a) One-tier  
b) Two-tier  
c) Three-tier  
d) Four-tier

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10 The WTO's top-level decision-making body is the \_\_\_\_\_ which can take decisions on all matters under any of the multilateral trade agreements

a) Ministerial Conference  
b) General Council  
c) Trade Policy Review Body  
d) Goods Council, Services Council and Intellectual Property (TRIPS) Council

11 The Ministerial Conference meets at least once every \_\_\_\_\_ years.

a) 1  
b) 2  
c) 4  
d) 5

12 As per \_\_\_\_\_, imported and locally produced goods should be treated equally – at least after the foreign goods have entered the market.

a) Most-favoured-nation Principle  
b) National Treatment Principle  
c) Principle of Predictability  
d) Principle of Freer trade

13 As per \_\_\_\_\_, if a country grants someone a special favour (such as a lower customs duty rate for one of their products) then that country has to do the same for all other WTO members.

a) Most-favoured-nation Principle  
b) National Treatment Principle  
c) Principle of Predictability  
d) Principle of Freer trade

14 \_\_\_\_\_ is not a G20 Member

a) Argentina  
b) Mexico  
c) Italy  
d) Afghanistan

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ANSWER KEY – Chapter 9 – New MCQs by MVSIR (Unit 3)

1	A	6	D	11	B
2	B	7	C	12	B
3	A	8	D	13	A
4	D	9	C	14	D
5	D	10	A		

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New MCQs by MVSIR

UNIT 4

1 In a \_\_\_\_\_, governments and central banks do not participate in the market for foreign exchange

a) floating exchange rate regime  
b) fixed exchange rate regime  
c) flexible exchange rate regime  
d) Both a & c

2 Difficulty with free-floating exchange rates exists-

a) Because it is unpredictable  
b) Because it makes international transactions riskier  
c) Because it increases the cost of doing business with other countries.  
d) All of the above

3 In \_\_\_\_\_, governments and central banks often seek to increase or decrease their exchange rates by buying or selling their own currencies

a) fixed exchange rate regime  
b) Managed float  
c) Both a & b  
d) None of the above

4 In a \_\_\_\_\_, the exchange rate between two currencies is set by government policy

a) floating exchange rate regime  
b) fixed exchange rate regime  
c) flexible exchange rate regime  
d) Managed float

5 Which of the following is not an advantage of fixed exchange rate regime?

a) Can greatly enhance international trade and investment  
b) Allows a Central bank or government to pursue its own independent monetary policy  
c) imposes discipline on a country's monetary authority, thus leads to generate lower levels of inflation.  
d) Can enhance the credibility of the country's monetary-policy

6 \_\_\_\_\_ is argued to be efficient and highly transparent as the exchange rate is free to fluctuate in response to the supply of and demand

a) fixed exchange rate regime  
b) flexible exchange rate regime  
c) Both a & b  
d) None of the above

7 What is greatest disadvantage of flexible exchange rate regime

a) Allows exchange rate to be used as a policy tool  
b) No obligation to intervene in currency markets  
c) volatile exchange rates generate a lot of uncertainties  
d) central bank is not required to maintain a huge foreign exchange reserves

8 \_\_\_\_\_ is the rate at which a person can trade the currency of one country for the currency of another country

a) Real Exchange Rate  
b) Nominal Exchange Rate  
c) Flexible Exchange Rate  
d) Both a & b

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9	Trade flows are affected by _____. The person or firm buying another currency is interested in what can be bought with it.	13	The Nominal Exchange rate of India is Rs 56/ 1\$, Price Index in India is 116 and Price Index in USA is 112. What will be the Real Exchange Rate of India?
a) Real Exchange Rate b) Nominal Exchange Rate c) Flexible Exchange Rate d) Both a & b		a) 54.07 b) 60 c) 58 d) 68	
10	_____ is the rate at which a person can trade the goods and services of one country for the goods and services of another	14	_____ is nominal effective exchange rate (a measure of the value of a domestic currency against a weighted average of various foreign currencies) divided by a price deflator or index of costs
a) Real Exchange Rate b) Nominal Exchange Rate c) Flexible Exchange Rate d) Both a & b		a) Real Exchange Rate b) Real Effective Exchange Rate c) Fixed Exchange Rate d) Nominal Exchange Rate	
11	Real exchange rate=	15	An increase in REER implies that exports become _____ and imports become _____
a) Nominal exchange rate x [Foreign price index / Domestic price index] b) Nominal exchange rate x [Domestic price index x Foreign price index] c) Nominal exchange rate / [Domestic price index x Foreign price index] d) Nominal exchange rate x [Domestic price index / Foreign price index]		a) Expensive, expensive b) Cheaper, cheaper c) Expensive, cheaper d) Cheaper, expensive	
12	Assume that Rs. 70 is needed to buy one US dollar in foreign exchange market (i.e. the nominal exchange rate is Rs. 70/ US \$). Suppose that a price index of standardized basket of goods and services is Rs. 200 in India and US \$ 100 in United States, find out the real exchange rate? (Treat India as a domestic country and United States as a foreign country)	16	_____ are contracts agreed upon to buy or sell currencies for future delivery which are carried out in forward and/or futures markets
a) 35 b) 70 c) 140 d) 280		a) Current Transactions b) Future transactions c) Spot Transaction d) Both a & C	
		17	Exchange rates prevailing for spot trading (for which settlement by and large takes two days) are called _____
		a) spot exchange rates b) forward exchange rates c) Nominal exchange rate d) Real exchange rate	

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18	_____ is considered as vehicle currency	23	_____ is a deliberate downward adjustment in the value of a country's currency relative to another country's currency or group of currencies or standard
a) Indian Rupee b) US Sterling (Pounds) c) Japanese Yen d) US Dollars		a) Devaluation b) Appreciation c) Revaluation d) Depreciation	
19	On the demand side, people desire foreign currency to-	24	An appreciation of home currency does not lead to _____
a) To purchase goods and services from another country b) for unilateral transfers such as gifts, awards, grants, donations or endowments c) to make investment income payments abroad d) All of the above		a) Increases price of exports b) cause larger budget deficits and worsen the current account of government c) Increases in the levels of inflation d) greater incentives to introduce technological innovations to cut cost	
20	The equilibrium rate of exchange is determined by the interaction of the _____ for a particular foreign currency	Explain the implications of the following on the exchange rate in foreign exchange market- Merry Land's exports remained more or less stagnant in the years 2005-06 to 2016-17. However, due to heavy thrust on industrialization, import of machinery, raw materials, and components as well as associated services of different types increased	
a) Demand & supply curves b) Production & Cost curves c) Both a & b d) None of the above			
21	_____ takes place when there is an increase in the home currency price of the foreign currency (or, alternatively, a decrease in the foreign currency price of the home currency)	25	
a) Home-currency appreciation b) foreign-currency appreciation c) Home-currency depreciation d) Both b & c			
22	If the Rupee dollar exchange rate in the month of Jan is \$1 = Rs. 70 and Rs. 65 in June. This is an example of- (INR - Home currency)	a) Home-currency appreciation b) foreign-currency appreciation c) Home-currency depreciation d) Both b & c	
a) Home-currency appreciation b) foreign-currency appreciation c) Home-currency depreciation d) Both a & b			

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26 Explain the implications of the following on the exchange rate-  
Investors in Australia perceive that the returns on investments in the US would be much more lucrative than elsewhere. As a result there is a huge increase in demand for investments in US dollar denominated financial investments

a) AUD will appreciate, and USD will appreciate  
b) AUD will depreciate, and USD will appreciate  
c) AUD will depreciate, and USD will depreciate  
d) AUD will appreciate, and USD will depreciate

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ANSWER KEY - Chapter 9 - New MCQs by MVSIR (Unit 4)

1	D	6	B	11	D	16	B	21	D	26	B
2	D	7	C	12	C	17	A	22	A		
3	B	8	B	13	C	18	D	23	A		
4	B	9	A	14	B	19	D	24	C		
5	B	10	A	15	C	20	A	25	D		

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New MCQs by MVSIR

UNIT 5

1 Loans from international institutions like World Bank, are a part of \_\_\_\_

a) Borrowings  
b) Foreign aid or assistance  
c) Deposits from non-resident Indians  
d) International Investments

2 \_\_\_\_ are "all investments involving long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the direct investor"

a) Foreign Portfolio Investment (FPI)  
b) Foreign Direct Investment (FDI)  
c) Both a & b  
d) Deposits from non-resident Indians

3 As per according to IMF manual on "Balance of payments", FDI occurs through acquisition of more than \_\_\_\_ of the shares of the target asset

a) 5%  
b) 10%  
c) 50%  
d) 51%

4 According to IMF and OECD definitions, \_\_\_\_ makes it eligible to be categorized as foreign direct investment (FDI)

a) the acquisition of at least 10% of the ordinary shares  
b) voting power in a public or private enterprise by non-resident investors  
c) the acquisition of at least 51% of the ordinary shares  
d) Both a or b

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5 The components of FDI are \_\_\_\_

a) Equity capital  
b) Reinvested earnings  
c) Other direct capital in the form of intra company loans between direct investors (parent enterprises) and affiliate enterprises  
d) All of the above

6 The modes of FDI are \_\_\_\_

a) opening of overseas companies,  
b) including the establishment of subsidiaries or branches,  
c) creation of joint ventures on a contract basis  
d) All of the above

7 A cell phone service provider based in USA, moving to India to provide the same service. This is an example of-

a) Horizontal FDI  
b) Vertical FDI  
c) Conglomerate FDI  
d) Two-way direct foreign investments

8 An automobile manufacturing company may acquire an interest in a foreign company that supplies parts or raw materials required for company. This is an example of-

a) Horizontal FDI  
b) Vertical FDI  
c) Conglomerate FDI  
d) Two-way FDI

9 \_\_\_\_ is one where an investor makes a foreign investment in a business unrelated to existing business in home country

a) Horizontal FDI  
b) Vertical FDI  
c) Conglomerate FDI  
d) Two-way FDI

10 \_\_\_\_\_ investments occur when some industries are more advanced in one nation (Eg- computer industry in USA), while other industries are more efficient in other nations (Eg automobile industry in Japan).

- a) Horizontal FDI
- b) Vertical FDI
- c) Conglomerate FDI
- d) Two-way direct foreign investments

11 Deposit of funds in an Indian or a British bank by an Italian company. Is an example of-

- a) Foreign Portfolio Investment
- b) Horizontal FDI
- c) Foreign Direct Investment
- d) Conglomerate FDI

12 The purchase of a bond (a certificate of indebtedness) of a Swiss company or the Swiss government by a citizen or company based in France. Is an example of-

- a) Foreign Portfolio Investment
- b) Horizontal FDI
- c) Foreign Direct Investment
- d) Conglomerate FDI

13 \_\_\_\_\_ is not concerned with either manufacture of goods or with provision of services

- a) Foreign Portfolio Investment
- b) Horizontal FDI
- c) Foreign Direct Investment
- d) Conglomerate FDI

14 \_\_\_\_\_ involves creation of physical assets

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

15 \_\_\_\_\_ is only short term interest and generally remain invested for short periods

- a) Foreign Portfolio Investment
- b) Conglomerate FDI
- c) Foreign Direct Investment
- d) Both a & c

16 \_\_\_\_\_ is speculative in nature

- a) Foreign Portfolio Investment
- b) Conglomerate FDI
- c) Foreign Direct Investment
- d) Both b & c

17 \_\_\_\_\_ is often accompanied by technology transfer

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

18 \_\_\_\_\_ involves abiding interest in management and control

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

19 Under \_\_\_\_\_ securities are held with significant degree of influence by the investor on the management of the enterprise

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

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20 \_\_\_\_\_ is not a reason for foreign direct investment

- a) increasing interdependence of national economies
- b) desire to reap economies of large-scale operation arising from technological growth
- c) unstable political environment and overall favourable investment climate in the host country
- d) promoting optimal utilization of physical, human, financial and other resources

21 \_\_\_\_\_ is not a reason for foreign direct investment

- a) infrastructure lags
- b) high rates of inflation
- c) unfavourable tax regime,
- d) All of the above

22 \_\_\_\_\_ is a form of FDI which makes use of the existing infrastructure by merging, acquiring or leasing, instead of developing a completely new one

- a) Joint Venture
- b) Greenfield investment
- c) Brownfield investment
- d) Both b & c

23 Which of the following is not a benefit of foreign direct investment?

- a) Entry of foreign enterprises fosters competition and in the host country
- b) FDI can accelerate growth and foster economic development
- c) FDI for accentuates the already existing income inequalities in the host country
- d) FDI promotes relatively higher wages for skilled jobs.

24 Which of the following is not a problem associated with foreign direct investment?

- a) FDI flows to move towards regions or states which are well endowed in terms of natural resources and availability of infrastructure has the potential to accentuate regional disparity
- b) Inflow of foreign capital may cause the domestic governments to slow down its efforts to generate more domestic savings.
- c) Increased competition resulting from the inflow of FDI facilitates weakening of the market power of domestic monopolies
- d) The high growth of wages in foreign corporations can influence a similar escalation in the domestic corporations which are not able to cover this increase with growth of productivity

ANSWER KEY - Chapter 9 - New MCQs by MVSIR (Unit 4)

1	A	6	D	11	A	16	A	21	D
2	B	7	A	12	A	17	B	22	C
3	B	8	B	13	A	18	A	23	C
4	D	9	C	14	B	19	B	24	C
5	D	10	D	15	A	20	C		

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CA Foundation – New Syllabus  
Business Economics

Chapter 9  
**INTERNATIONAL TRADE**

**ICAI Extra MCQs**

MCQ Compiler by MVSIR

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MCQ Compiler

Chapter 9

**ICAI Extra MCQs**

1 Which of the following measures involve total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period?

- a) Import Quotas
- b) Anti dumping duties
- c) Escalated tariffs
- d) embargos

2 ONGC Videsh Limited has been incorporated by its parent entity ONGC for oil and gas acreages, involving exploration, development and production of oil and gas outside India. Which type of foreign investment is it?

- a) Joint Venture
- b) Brownfield Investment
- c) Greenfield investment
- d) Licensing

3 Depreciation of currency will :

- a) Enhance government revenue from import tax
- b) Increase trade competitiveness
- c) Reduce import of gold
- d) All of the above

4 Free trade implies :

- a) No trade barriers
- b) Includes tariff barriers but no to non-tariff barriers
- c) Includes non-tariff barriers but no to tariff barriers.
- d) None of the above.

5 Which theory considers bullion as a part of international trade?

- a) Modern theory of trade
- b) Factor equalization theorem
- c) Comparative cost advantage theory
- d) mercantilism

6 Countries with abundance of capital should focus on :

- a) Labour intensive goods
- b) Capital intensive goods
- c) Distribute between labour and capital intensive goods
- d) A importing more machinery

7 A group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries :

- a) Free trade area
- b) Custom union
- c) Trade bloc
- d) Regional preferential trade agreements

8 The secretariat of WTO is based in :

- a) Geneva
- b) Moscow
- c) Italy
- d) France

9 A country has a comparative advantage in producing a good if it can produce that good :

- a) At a lower absolute cost than other countries
- b) At a higher absolute cost than other countries
- c) More efficiently than other countries
- d) More slowly than other countries

10 According to Adam Smith International Trade is :

- a) Zero sum game
- b) Non a zero sum game
- c) All of the above
- d) None of the above

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**MCA Mohnish Vora (MVSIR)**

[www.mvsir.in](http://www.mvsir.in) **9.19**

11 Which of the following is not one of the features of New Trade Theory by Paul Krugman?

a) Countries which trade in similar goods are natural trade partners  
b) It is based on labor theory of value  
c) Network effect as means of engaging in international trade  
d) It focuses more on economies of scale

12 Which of the following is not one of the disadvantages of Foreign Direct Investment in India?

a) It is focused more on capital intensive methods of production.  
b) FDI promotes regional imbalance in the country.  
c) The domestic industries will suffer as a result of anti-competitive practices  
d) It fosters human capital formation and productivity in the host country

13 Which of the following is outside the WTO :

a) Wheat  
b) IT  
c) Palm oil  
d) E-commerce

14 Factor abundance is considered to be part of international trade in:

a) Heckscher ohlin theory of international trade  
b) Comparative cost advantage theory  
c) New trade theory  
d) Factor equalization theorem

15 The concept of opportunity cost is employed under:

a) Modern theory of trade  
b) Factor equalization theorem  
c) Comparative cost advantage theory  
d) Absolute cost advantage theory

16 Which of the following is a disadvantage of international trade?

a) Increased choice for consumers  
b) Risk of dependence on imports  
c) Increased specialization  
d) None of the above

17 In 2020, United states, Mexico and Canada formed an agreement named USMCA. Which of the following type of regional Trade agreement is reflected in the above case?

a) Trading bloc  
b) Free-trade area  
c) Common market  
d) Customs union

18 The total member countries under WTO currently:

a) 164  
b) 171  
c) 169  
d) 161

19 National Treatment Principle (NTP) says:

a) Imported goods and domestic goods should be treated equally.  
b) Exported goods and imported goods should be treated equally.  
c) Imported goods and domestic goods should be treated differently.  
d) Internal trade is more important than international trade.

20 Prices of output of goods and prices of factors are equalized under?

a) Modern theory of international trade  
b) Factor Equalization theorem  
c) New trade theory  
d) Absolute cost advantage theory

21 The central bank of a country is concerned about the high level of household debt and its potential impact on the economy. Which of the following actions can it take to address the issue?

a) Increase the reserve requirement ratio to reduce lending  
b) Decrease the reserve requirement ratio to increase lending  
c) Increase the interest rate on loans to discourage borrowing  
d) Decrease the interest rate on loans to encourage borrowing

22 India imposed Anti-dumping Duties on the imports of Steel and Aluminum from China. Which one of the following is not one of the reason for the Government of India to adopt this measure?

a) To protect the domestic industries and employment  
b) Overvaluation of export price by exporters  
c) Undervaluation of export price by exporters  
d) A price discrimination by exporters in different markets

23 Which of the following is an example of a preferential trade agreement?

a) European Union(EU)  
b) North American Free Trade Agreement (NAFTA)  
c) Trans-Pacific Partnership (TPP)  
d) All of these

24 Which of the following instrument is not FDI compliant instrument?

a) Equity shares  
b) Compulsorily convertible debentures  
c) Redeemable preference share  
d) None of the above

25 Under which union they have or follow a common monetary policy and fiscal policy:

a) Economic union  
b) Custom union  
c) Common market  
d) All the above

26 According to Factor price equalization theorem :

a) International trade tends to equalize the factor prices between the trading nations  
b) International trade tends to equalize the exchange rates  
c) Both a and b  
d) None of these

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ANSWER KEY – Chapter 9 – ICAI Extra MCQs

1	D	6	B	11	B	16	B	21	A	26	C
2	C	7	C	12	D	17	B	22	B		
3	D	8	A	13	D	18	A	23	C		
4	A	9	A	14	A	19	A	24	C		
5	D	10	B	15	C	20	B	25	A		

CA Foundation – New Syllabus  
Business Economics

Chapter 9  
INTERNATIONAL TRADE

MTP & PYQ MCQs

MCQ Compiler by MVSIR

MTP Apr 24	
1	What is the purpose of a voluntary export restraint (VER)?
a) To limit the quantity of exports. b) To encourage foreign producers to export more c) To reduce the cost of imports. d) To comply with international trade agreements.	
MTP Apr 24	
2	The quantity of dollars supplied will decrease if:
a) imports into the United States increase. b) the expected future exchange rate falls c) the interest rate in the United States falls d) fewer U.S. residents travel abroad.	
MTP Apr 24	
3	Quantitative restrictions refer to limits set by countries to curb:
a) Imports b) Exports c) Imports & exportse d) None of the above	
MTP Apr 24	
4	Theory of Mercantilism propagates:
a) Encourage exports and imports b) Encourage exports and discourage imports c) Discourage exports and imports d) Discourage exports and encourage imports	
MTP Apr 24	
5	Which of the following is more sensitive to short-term changes in economic conditions?
a) FDI b) FPI c) Both FDI and FPI d) Neither FDI nor FPI	

MTP Apr 24	
6	Which type of investment is more influenced by government regulations and policies?
a) FDI b) FPI c) Both FDI and FPI d) Neither FDI nor FPI	
MTP Apr 24	
7	Which international organization is responsible for facilitating trade negotiations and resolving trade disputes among member countries?
a) World Health Organization (WHO) b) International Monetary Fund (IMF) c) World Trade Organization (WTO) d) United Nations Educational, Scientific and Cultural (UNESCO)	
MTP Apr 24	
8	Which trade policy tool is designed to directly support domestic producers by reducing the cost of exporting goods?
a) Export subsidy b) Import quota c) Voluntary export restraint d) Export tariff	
MTP May 24	
9	Which of the following is a zero-sum game?
a) Prisoners dilemma b) Competition for market share c) Pricing strategy d) None of the above is correct.	
MTP May 24	
10	The process of selling of the products at a price less than the going price in the market is known as:
a) Quota b) Tariff c) Subsidies d) Dumping	

MTP May 24	
11	Comparative advantage is determined by:
a) the amount of resources needed to produce a good b) the money cost of producing any good c) The opportunity cost of producing any good d) Absolute advantage and production possibilities combined.	
MTP May 24	
12	A lumps sum tax per unit on imports is known as:
a) A specific tariff b) An effective tariff c) An effective quota d) A specific quota	
MTP May 24	
13	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	
MTP May 24	
14	Central Government can impose the safeguard duty if it is satisfied that:
a) Any article is imported into India in increased quantities b) Such increased importation is causing or threatening to cause serious injury to domestic industry c) Either A or B d) Both A and B	

MTP May 24	
15	Countervailing duty shall not be levied unless it is determined that:
a) The subsidy relates to export performance. b) The subsidy relates to the use of domestic goods over imported goods in the export article c) The subsidy has been conferred on a limited number of persons engaged in the manufacture, production or export of articles. d) All the above	
MTP May 24	
16	Terms of trade in developing countries are generally unfavorable because:
a) They export manufacturing products. b) They export primary products. c) They export few goods. d) Both A and C	
MTP May 24	
17	Most tariffs have:
a) only revenue effects b) only protective effects c) both protective and revenue effects d) neither protective or revenue effects	
MTP May 24	
18	Which of the following statements is/are correct regarding FDI under automatic route?
a. FDI in India under the automatic route does not require prior approval either by the Government of India or the Reserve Bank of India. b. Investors are only required to notify the concerned regional office of the RBI before receipt of inward remittances and file required documents with that office before the issue of shares to foreign investors.	
a) 1 only b) 2 only c) Both 1 and 2 d) Neither 1 nor 2	

MTP May 24	
19	What is Global Depository Receipt ? a) It is a receipt issued by multinational banks on deposit of money. b) It is a receipt issued by stock exchange to bank clearing mechanism. c) It is a receipt issued by an overseas bank in lieu of shares of a domestic company. d) It is a receipt issued by stock exchange on investment by foreign portfolio investor.
MTP May 24	
20	Any act of interference by a Central Bank like the RBI in influencing the exchange rate is referred to as which of the following in India? a) Dirty Floats b) Managed Floats c) Fixed Floats d) Market Stabilization Floats
MTP May 24	
21	Which type of investment is more susceptible to capital flight during times of economic instability? a) FDI b) FPI c) Both FDI and FPI equally d) Neither FDI nor FPI
MTP May 24	
22	The Three component of FDI is: a) equity capital b) reinvested earnings c) Intra company loans d) All the above
MTP May 24	
23	Which of the following tariff is charged on imports on most-favoured nation (MFN) basis: a) bound tariff b) applied tariff c) prohibitive tariff d) None of these
MTP May 24	
24	Money cost is considered by: a) Modern theory of trade b) Comparative cost advantage c) New Trade theory d) None of these
MTP May 24	
25	First mover advantage theory is related to: a) Absolute advantage theory b) Comparative cost advantage theory. c) New trade theory d) None of these
MTP May 24	
26	The WTO comprises majorly: a) developed countries b) under developed countries c) developing countries d) None of these.
MTP May 24	
27	A firm makes an investment in unrelated business then it is called: a) Horizontal investment b) Vertical investment c) Conglomerate d) None of these
MTP May 24	
28	Dirty Floating is related to: a) Flexible system of exchange rate b) fixed system of exchange rate c) Either of these d) None of these
MTP May 24	
29	Assume that Rs 0.15/unit specific tariff is levied by govt on every sunglass which is imported into India, and if 2000 sunglasses are imported & price of each sunglass is Rs 1000/-, then find out amount of total tariff revenue collected by govt? a) Rs 20,00,000 b) Rs 150 c) Rs 300 d) Rs 3,00,000

MTP Jun 24	
30	Foreign Portfolio Investment (FPI) involves: a) Investment in tangible assets in a foreign country b) Investment in financial assets such as stocks and bonds of foreign companies c) Establishing subsidiaries or acquiring stakes in foreign companies d) Long-term commitment to a foreign market
MTP Jun 24	
31	Ricardo explained the law of comparative advantage on the basis of: a) opportunity costs b) economies of scale c) the labour theory d) None of these
MTP May 24	
32	All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US? a) The demand curve for dollars shifts to the right and Indian Rupee appreciates b) The supply of US dollars shrinks and, therefore, import prices decrease c) The demand curve for dollars shifts to the right and Indian Rupee depreciates d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate
MTP Jul 24	
33	Which of the following is an example of a local content requirement? a) A limit on the quantity of imports b) A subsidy for domestic producers c) A requirement that a certain percentage of a product be produced domestically. d) All of these
MTP Jul 24	
34	What is hedging? a) Protection against extreme weather condition b) Protection against risk related to variation in Price movement in an asset. c) When exchange rate is unlocked for future supplies of foreign exchange d) None of these
MTP Jul 24	
35	Export led growth strategy does not include: a) outward oriented growth b) export promotion c) import restrictions d) Emphasising comparative advantage
MTP Jul 24	
36	One of the reasons mentioned below doesn't justify imposition of tariffs: a) It will enhance consumer sovereignty b) It helps in curbing BoP deficit. c) It raises government revenue. d) It is used to protect domestic industry from subsidized imports.
MTP Jul 24	
37	Dumping Refers to: a) Reducing tariffs b) Sale of goods abroad at a lower price below their cost and price in their home market c) Buying goods at low prices abroad and selling at higher price locally d) Expenditure goods selling for low prices
MTP Jul 24	
38	Which of the following theories suggests that firms seek to penetrate new markets over time? a) Theory of comparative advantage b) Product Market theory c) Imperfect Market theory d) None of these

MTP Jul 24	
39	Who Propounded the Price Equalization Theorem? a) Paul Samuelson b) Alfred Marshall c) Irving Fisher d) Marx
MTP Jul 24	
40	The World Trade Organization (WTO) was established to implement the final act of round agreement of GATT. a) Geneva b) Uruguay c) Tokyo d) None of these
MTP Aug 24	
41	Escalated tariffs refer to: a) Nominal tariff rate on raw materials which are greater than tariffs on mfg. product b) A tariff which is escalated to prohibit imports of a particular good to protect domestic industries c) Normal tariff rate on mfg. products which are greater than tariffs on raw material d) None of these
MTP Aug 24	
42	The most controversial topic in the yet to conclude Doha Agenda is: a) Trade in agricultural goods b) Trade in manufactured goods c) market access to goods from developed countries d) None of these
MTP Aug 24	
43	"Vehicle currency" refer to a) A currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties. b) a currency that is traded internationally and therefore is in high demand c) either a or b d) None of these

MTP Aug 24	
44	Creation of fresh assets and production are included in which type of FDI: a) Strategic Alliance b) Merger and Acquisition c) Brownfield Investment d) Greenfield Investment
RTP Sep 24	
45	What is the primary purpose of an import quota? a) To encourage domestic production. b) To reduce government spending. c) To limit the quantity of imports. d) To increase the trade deficit.
RTP Sep 24	
46	Which exchange rate regime is adopted by highest no of IMF members a) Hard Peg b) Floating c) Free Floating d) Soft Peg
PYQ Sep 2024	
47	As of 1 <sup>st</sup> February 2021, how many Regional Trade Agreements (RTAs) were in force worldwide? a) 239 RTAs b) 339 RTAs c) 439 RTAs d) 539 RTAs
PYQ Sep 2024	
48	What does the principle of Absolute Advantage refer to? a) The ability to produce a greater quantity of a goods using fewer resources b) The ability to produce a greater quantity of a goods using the same amount of resources as competitors c) The ability to produce a lesser quantity of a goods using the same amount of resources as competitors d) The ability to produce a greater variety of goods than competitors

PYQ Sep 2024	
49	The North American Free Trade Agreement signed between a) United States of America and Canada b) United States of America, Canada, and Mexico MUSIR by c) United States of America and Mexico d) Canada and Mexico
PYQ Sep 2024	
50	What does TRIPS stand for? a) Trade - related agreement on investment policies. b) Trade-Related Aspects of Intellectual Property Rights c) Transnational Regulations for International Product Standards d) Trade Regulations for International Patent Systems
PYQ Sep 2024	
51	Suppose the exchange rate between INR and EUR changes from 1 EUR = 80 INR to 1 EUR = 85 INR. What can be said about the change in the value of the INR relative terms to the EUR? a) INR has appreciated against EUR. b) INR has depreciated against the EUR. c) EUR has no effect against INR. d) EUR has depreciated against INR.
PYQ Sep 2024	
52	What is the main difference between foreign direct investment (FDI) and foreign portfolio investment (FPI)? a) FDI creates physical assets, while FPI involves only financial assets. b) FDI involves financial assets, while FPI creates physical assets. c) Both FDI and FPI create physical assets. d) Both FDI and FPI involve only financial assets.
PYQ Sep 2024	
53	Foreign corporations invest in India to benefit from the country's particular investment privileges such as tax breaks and comparatively lower salaries. This type of investment is an example of: a) Foreign Portfolio Investment b) Joint Venture c) Foreign Direct Investment d) Strategic Alliance
PYQ Sep 2024	
54	A tariff which a WTO member binds itself with a legal commitment not to raise tariff rate above a certain level is known as: a) Applied tariff b) Bound tariff c) Specific tariff d) Most-favored nation tariffs
PYQ Sep 2024	
55	Which of the following is covered under Technical Barriers to Trade (TBT)? a) Only food products. b) Only non-food traded trade products. c) Only technical standard products. d) Both food and non-food traded products.
PYQ Sep 2024	
56	What term is used for the rate between currencies Y and Z, which is derived from the given rates of another set of two pairs of currency (say X and Y, and, X and Z)? a) Bid rate b) Ask rate c) Spot rate d) Cross rate

PYQ June 2024

57 Theory of Comparative cost advantage is \_\_\_\_\_ in nature and it \_\_\_\_\_ takes into account of factor price difference

a) Positive; does  
b) Normative; does not  
c) Positive; does not  
d) Normative; does

PYQ June 2024

58 Mercantilism advocates

a) Aggressive exports over imports to accumulate wealth  
b) Comparative advantage  
c) Absolute cost advantage  
d) Factor endowment

PYQ June 2024

59 GATT was established in the year

a) 1945  
b) 1948  
c) 1995  
d) 2014

PYQ June 2024

60 discriminate between their trading partners. This is referred to as

a) National Treatment (NT)  
b) Most Favoured Nation (MFN)  
c) Promoting Fair Competition (PFC)  
d) Free Trade through negotiation (FTN)

PYQ June 2024

61 Group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries is referred as

a) Trading Block  
b) Free-trade area  
c) Customs union  
d) Economic and monetary union

PYQ June 2024

62 A total ban imposed by the government on imports or export of some or all commodities to particular country or regions for a specified or indefinite period is termed as

a) Embargos  
b) Safeguard measure  
c) Distribution restrictions  
d) Restrictive measures

PYQ June 2024

63 Which of the following is levied as a fixed/constant percentage on the money value of an imported or exported good?

a) Advalorem Tariff  
b) Compound Tariff  
c) Specific Tariff  
d) Bound Tariff

PYQ June 2024

64 Which of the following is not a negative outcome of tariff?

a) Decreases revenue to the government  
b) Producers of the importing country increases the well being  
c) Domestic consumers suffer a loss in consumer surplus  
d) By ignoring comparative advantage, tariffs discourage efficient production in the rest of the world

PYQ June 2024

65 An increase in Real Effective Exchange Rate indicates

a) A loss in trade competitiveness  
b) An increase in trade competitiveness  
c) Exports become more cheaper  
d) Imports become more costlier

PYQ June 2024

66 Number of units of a foreign currency can be exchanged for one unit of local currency is referred to as \_\_\_\_\_

a) Direct Quote  
b) Indirect Quote  
c) European Currency  
d) Cross Quotes

PYQ June 2024

67 Not a component of FDI according to IMF:

a) Equity capital  
b) Reinvestment earnings  
c) Portfolio investments  
d) Intra company loans

Answer Key - Chapter 9 MTP & PYQ MCQs

1	A	11	C	21	B	31	C	41	C	51	B	61	A
2	D	12	A	22	D	32	C	42	A	52	A	62	A
3	C	13	A	23	B	33	C	43	A	53	C	63	A
4	B	14	D	24	A	34	B	44	D	54	B	64	B
5	B	15	D	25	A	35	C	45	C	55	D	65	A
6	A	16	B	26	C	36	A	46	D	56	D	66	B
7	C	17	C	27	C	37	B	47	B	57	B	67	C
8	A	18	C	28	A	38	D	48	B	58	A		
9	B	19	C	29	C	39	A	49	B	59	B		
10	D	20	B	30	B	40	B	50	B	60	B		

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CA Foundation – New Syllabus  
Business Economics

Chapter 9  
INTERNATIONAL TRADE

ICAI SM MCQs

MCQ Compiler by MVSIR

UNIT 1

Basic

- 1 Which of the following does not represent a difference between internal trade and international trade? ICAI SM
- a) transactions in multiple currencies
  - b) homogeneity of customers and currencies
  - c) differences in legal systems
  - d) none of the above

- 2 The theory of absolute advantage states that ICAI SM

- a) national wealth and power are best served by increasing exports and decreasing imports
- b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else
- c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
- d) differences in absolute advantage explains differences in factor endowments in different countries

- 3 Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage? ICAI SM
- a) Modern theory of international trade
  - b) The factor endowment theory
  - c) The Heckscher-Ohlin Theory
  - d) None of the above

- 4 Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports ICAI SM
- a) Capitalism
  - b) Socialism
  - c) Mercantilism
  - d) Laissez faire

- 5 Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain? ICAI SM
- 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

- 6 According to the theory of comparative advantage ICAI SM

- a) trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
- b) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
- c) nothing definite can be said about the gains from trade
- d) gains from trade depends upon factor endowment and utilization

ICAI SM

7 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?

	Wheat	Rice
Country X	10	20
Country Y	20	10

Labour cost (hours) for production of one unit

a) 20 labour hours  
b) 10 labour hours  
c) 30 labour hours  
d) Does not gain anything

ICAI SM

8 Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

	India	Bangladesh
Tables	3	8
Mats	2	1

Labour cost (hours) for production of one unit

a) Bangladesh has a comparative advantage in mats  
b) India has a comparative advantage in tables  
c) Bangladesh has an absolute advantage in mats  
d) All the above are true

Answer Key - Chapter 9 ICAI MCQs (Unit - 1)

1	B	3	D	5	B	7	B	9	B
2	B	4	C	6	B	8	B	10	D

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ICAI SM

1 A specific tariff is

a) a tax on a set of specified imported goods  
b) an import tax that is common to all goods imported during a given period  
c) a specified fraction of the economic value of an imported good  
d) a tax on imports defined as an amount of currency per unit of the good

ICAI SM

2 A tariff on imports is beneficial to domestic producers of the imported good because

a) they get a part of the tariff revenue  
b) it raises the price for which they can sell their product in the domestic market  
c) it determines the quantity that can be imported to the country  
d) it reduces their producer surplus, making them more efficient

ICAI SM

3 A tax applied as a percentage of the value of an imported good is known as

a) preferential tariff  
b) ad valorem tariff  
c) specific tariff  
d) mixed or compound tariff

ICAI SM

4 Escalated tariff refers to

a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products  
b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials  
c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries  
d) none of the above

ICAI SM

5 Voluntary export restraints involve:

a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time  
b) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets  
c) an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time  
d) quantitative restrictions imposed by the importing country's government.

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ICAI SM

6 Anti-dumping duties are

- a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
- b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government
- c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market
- d) Both (a) and (c) above

ICAI SM

7 A countervailing duty is

- a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
- b) charged by importing countries to ensure fair and market-oriented pricing of imported products
- c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
- d) All the above

ICAI SM

9 SPS measures and TBTs are

- a) permissible under WTO to protect the interests of countries
- b) may result in loss of competitive advantage of developing countries
- c) increases the costs of compliance to the exporting countries
- d) All the above

ICAI SM

10 Which of the following is not a non-tariff barrier.

- a) Complex documentation requirements
- b) Import quotas on specific goods
- c) Countervailing duties charged by importing country
- d) Pre shipment product inspection and certification requirements

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ICAI SM

11 Under tariff rate quota

- a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement
- b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate
- c) lower tariff is charged from goods imported from a country which is given preferential treatment
- d) none of the above

ICAI SM

12 Non-tariff barriers (NTBs) include all of the following except:

- a) import quotas
- b) tariffs
- c) export subsidies
- d) technical standards of products

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Answer Key - Chapter 9 ICAI MCQs (Unit - 2)

1	D	4	B	7	D	10	C
2	B	5	C	8	C	11	B
3	B	6	D	9	D	12	B

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UNIT 3	
Basic	
ICAI SM	
1	Which of the following culminated in the establishment of the World Trade Organization? a) The Doha Round b) The Tokyo Round c) The Uruguay Round d) The Kennedy Round
ICAI SM	
2	Choose the correct statement a) The GATT was meant to prevent exploitation of poor countries by richer countries b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property. c) All members of the World Trade Organization are required to avoid tariffs of all types d) All the above
ICAI SM	
3	The 'National treatment' principle stands for a) the procedures within the WTO for resolving disagreements about trade policy among countries b) the principle that imported products are to be treated no worse in the domestic market than the local ones c) exported products are to be treated no worse in the domestic market than the local ones d) imported products should have the same tariff, no matter where they are imported from

ICAI SM	
4	'Bound tariff' refers to a) clubbing of tariffs of different commodities into one common measure b) the lower limit of the tariff below which a nation cannot be taxing its imports c) the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO. d) the limit within which the country's export duty should fall so that there are cheaper exports
ICAI SM	
5	The essence of 'MFN principle' is a) equality of treatment of all member countries of WTO in respect of matters related to trade b) favour one, country, you need to favour all in the same manner c) every WTO member will treat all its trading partners equally without any prejudice and discrimination d) all the above
ICAI SM	
6	The World Trade Organization (WTO) a) has now been replaced by the GATT b) has an inbuilt mechanism to settle disputes among members c) was established to ensure free and fair trade internationally. d) (b) and c) above

ICAI SM	
7	The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments a) on increasing agricultural productivity and rural development b) market access and agricultural credit support c) market access, domestic support and export subsidies d) market access, import subsidies and export subsidies
ICAI SM	
8	The Agreement on Textiles and Clothing a) provides that textile trade should be deregulated gradually and the tariffs should be increased b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974 c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries d) stipulated that tariffs in all countries should be the same
ICAI SM	
9	The Agreement on Trade-Related Aspects of Intellectual Property Rights a) stipulates to administer a system of enforcement of intellectual property rights. b) provides for most-favoured-nation treatment and national treatment for intellectual properties c) mandates to maintain high levels of intellectual property protection by all members d) all the above

ICAI SM	
10	The most controversial topic in the yet to conclude Doha Agenda is a) trade in manufactured goods b) trade in intellectual property rights-based goods c) trade in agricultural goods d) market access to goods from developed countries
ICAI SM	
11	The WTO commitments a) affect developed countries adversely because they have comparatively less agricultural goods b) affect developing countries more because they need to make radical adjustments c) affect both developed and developing countries equally d) affect none as they increase world trade and ensure prosperity to all

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Answer Key - Chapter 9 ICAI MCQs (Unit - 3)

1	C	4	C	7	C	10	C
2	B	5	D	8	B	11	B
3	B	6	D	9	D		

**UNIT 4**

**Basic**

ICAI SM

1 Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?

- a) The US decides not to import from Country X
- b) An increase in remittances from the employees who are employed abroad to their families in the home country
- c) Increased imports by consumers of Country X
- d) Repayment of foreign debts by Country X

ICAI SM

2 All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?

- a) The demand curve for dollars shifts to the right and Indian Rupee appreciates
- b) The supply of US dollars shrinks and, therefore, import prices decrease
- c) The demand curve for dollars shifts to the right and Indian Rupee depreciates
- d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate

ICAI SM

3 The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statements are

- a) wholly correct
- b) partially correct
- c) wholly incorrect
- d) None of the above

ICAI SM

Match the following by choosing the term which has the same meaning

- i. floating exchange rate
- ii. fixed exchange rate
- iii. pegged exchange rate
- iv. devaluation
- v. appreciation

- a. depreciation
- b. revaluation
- c. flexible exchange rate

- a) (i c); (ii d); (iii b); (iv a)
- b) (i b); (ii a); (iii d); (iv c)
- c) (i a); (ii d); (iii b); (iv c)
- d) (i d); (ii a); (iii b); (iv c)

ICAI SM

5 Choose the correct statement

- a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
- b) the fixed exchange rate regime is said to be efficient and highly transparent.
- c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency
- d) Exchange rates are generally fixed by the central bank of the country

ICAI SM

6 Which of the following statements is true?

- a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency
- b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency
- c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.
- d) All the above

ICAI SM

7 An increase in the supply of foreign exchange

- a) shifts the supply curve to the right and as a consequence, the exchange rate declines
- b) shifts the supply curve to the right and as a consequence, the exchange rate increases
- c) more units of domestic currency are required to buy a unit of foreign exchange
- d) the domestic currency depreciates and the foreign currency appreciates

ICAI SM

8 Currency devaluation

- a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries
- b) may reduce export prices and increase the international competitiveness of domestic industries
- c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services
- d) (a) and (c) above

ICAI SM

9 At any point of time, all markets tend to have the same exchange rate for a given currency due to

- a) Hedging
- b) Speculation
- c) Arbitrage
- d) Currency futures

ICAI SM	
10	'Vehicle Currency' refers to
a) a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties b) a currency that is traded internationally and, therefore, is in high demand c) a type of currency used in euro area for synchronization of exchange rates d) a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties	

Mohnish Vora (MVSIR)

Answer Key - Chapter 9 ICAI MCQs (Unit - 4)

1	B	3	A	5	C	7	A	9	C
2	C	4	D	6	D	8	B	10	D

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UNIT 5

Basic

ICAI SM	
1	Which of the following statements is incorrect?
a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities. b) Foreign portfolio investments involve flow of 'financial capital'. c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services. d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.	

ICAI SM	
2	Which of the following is a component of foreign capital?
a) Direct inter government loans b) Loans from international institutions (e.g. World Bank, IMF, ADB) c) Soft loans for e.g. from affiliates of World Bank such as IDA d) All the above	

ICAI SM	
3	Which of the following would be an example of foreign direct investment from Country X?
a) A firm in Country X buys bonds issued by a Chinese computer manufacturer. b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm d) None of the above	

ICAI SM	
4	Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?
a) Brownfield investment b) Merger and acquisition c) Greenfield investment d) Strategic alliances	

ICAI SM	
5	Which is the leading country in respect of inflow of FDI to India?
a) Mauritius b) USA c) Japan d) USA	

ICAI SM	
6	An argument in favour of direct foreign investment is that it tends to
a) promote rural development b) increase access to modern technology c) protect domestic industries d) keep inflation under control	

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ICAI SM	
7	Which of the following is a reason for foreign direct investment?
a) secure access to minerals or raw materials b) desire to capture of large and rapidly growing emerging markets c) desire to influence home country industries d) (a) and (b) above	

ICAI SM	
8	A foreign direct investor
a) May enter India only through automatic route b) May enter India only through government route c) May enter India only through equity in domestic enterprises d) Any of the above	

ICAI SM	
9	Foreign investments are prohibited in
a) Power generation and distribution b) Highways and waterways c) Chit funds and Nidhi company d) Airports and air transport	

ICAI SM	
10	Which of the following statement is false in respect of FPI?
a) portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments b) is effected largely by individuals and institutions through the mechanism of capital market c) is difficult to recover as it involves purely long-term investments and the investors have controlling interest d) investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.	

Answer Key – Chapter 9 – ICAI MCQs (Unit – 5)

1	C	3	C	5	A	7	D	9	C
2	D	4	C	6	B	8	D	10	C

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