FORMAT-1

Semester: ....3rd...

Programme:

AUTUMN END SEMESTER EXAMINATION-2023

…3rd.. Semester, …B.Tech…..… (Programme)

SUBJECT: INTERNATIONAL ECONOMIC COOPERATION

CODE:

(For ………….. Admitted Batches)

Time: 3 Hours **Full Marks: 50**

Answer any SIX questions.
Question paper consists of four SECTIONS i.e. A, B, C and D.
Section A is compulsory.
Attempt minimum one question each from Sections B, C, D.
The figures in the margin indicate full marks.
Candidates are required to give their answers in their own words as far as practicable and all parts of a question should be answered at one place only.

SECTION-A (Learning levels 1 and 2)				Learning levels as per Bloom's taxonomy	Course Outcomes (CO)
1.		Answer the following questions.	[1×10]		
	(a)	Explain the relationship between the foreign exchange rate and the demand for foreign exchange. **Solution: They have an inverse relationship. With a rise in foreign exchange rate, its demand falls and vise versa.**			
	(b)	Explain the differences between 'appreciation' and 'depreciation' of the domestic currency,with a hypothetical example. **Solution: Will explain their differences**			
	(c)	Where are borrowings from abroad recorded in the Balance of payment account and why? **Solution: Balance of Payments account are classified into current account and capital account. Borrowing from abroad are recorded in the capital account (credit side) of Balance of Payments as it is a foreign liability on the country and it is to be repaid with interest.**			
	(d)	If 1 dollar = Rs. 60 changes to 1 dollar = Rs. 69 by the mandate of the RBI, what is it called from the following: Appreciation, Depreciation, Devaluation or Revaluation. **Solution: It is Devaluaion.** **Devaluation refers to the mandated reduction in the value of a currency, i.e. exchange rate increases.**			
	(e)	Give examples of 4 invisible items of the Balance of			

		payment account. **Solution: Banking, insurance, portfolio investments, tourism etc. [They can give any 4 examples of their own]**			
	(f)	The price of 1 US Dollar has fallen from Rs.50 to Rs.48. Has the Indian currency appreciated or depreciated? Is this a rise or fall in the Indian exchange rate. **Solution: The Indian Currency has appreciated. It is a rise in the Indian exchange rate.**			
	(g)	The Balance of trade shows a deficit of Rs.300 crores. The value of exports are Rs.500 crores. What is the value of imports? **Solution: Balance of trade = Exports- Imports** **So, Imports = Exports - Balance of trade = 500−(−)300=Rs.800 crores**			
	(h)	If €1 = Rs 75 & $1 = Rs 60. What is the exchange rate between Euro(€) and dollar ($) ? **Solution: €1 = $1.25**			
	(i)	What are Special Drawing Rights? State its significance in the global financial market. **Solution: Will explain SDR and its significance**			
	(j)	Explain Forward Exchange Rate contract with an example. **Solution: Will explain FER with an example.**			
		SECTION-B (Learning levels 1,2, and 3)		Learning levels as per Bloom's taxonomy	Course Outcomes (CO)
2.	(a)	The nation of Bermuda is "small" and assumed to be unable to affect world prices. It imports strawberries at the price of 10 dollars per box. The Domestic Supply and Domestic Demand curves for boxes are: S = 60 + 20P D = 1160 − 15P (a) Assume Bermuda is Completely open to trade. What is the equilibrium price and quantity consumed? How much is produced domestically, and how much is imported? **Solution: Since they are open to trade, the equilibrium price will be determined by the world market. Therefore, using the Domestic Supply and Demand equations, and recognizing that Import Demand is given by MD = D − S = 1100 − 35P, we get: P world = 10 D = 1160 − 15 × 10 = 1010** **S = 60 + 20 × 10 = 260** **MD = 1100 − 35 × 10 = 750**	[4]		
	(b)	**With reference to the above question in 2a,** **i .**Now consider the effect of an import quota of 400 boxes.	[4]		

		What happens to the price of strawberries and quantity consumed? **Solution: The effect of an import quota is to limit imports at exactly 400. Using the import demand equation expressed above, we can solve for new equilibrium prices to be: 400 = 1100 − 35P ⇒** **P quota = 20.** **With this higher price,** **D (quota) = 1160 − 15 × 20 = 860** **S (quota) = 60 + 20 × 20 = 460** **MD(quota) = 1100 − 35 × 20 = 400**			
3.	(a)	Calculate the PPP of french fries when they cost $2.87 in the US and £1.94 in the UK. Is the dollar overvalued or undervalued? **Solution: $1.47 Per £1**	[4]		
	(b)	Explain the Purchasing Power Theory of Exchange Rate Determination with example. **Solution: Will explain PPP theory with example**	[4]		
SECTION-C (Learning Levels 3 and 4)				Learning levels as per Bloom's taxonomy	Course Outcomes (CO)
4.	(a)	In which sub-account and on which side of the Balance of Payment account will foreign investment in India be recorded? Explain why? What will be the effect of foreign investment on India's exchange rate? Explain the reason. **Solution: It is recorded on the credit side of the capital account.** **Demand remaining same, more supply of foreign capital will lead to a fall in the exchange rate. India's exchange rate will appreciate.**	[4]		
	(b)	How does the appreciation and depreciation of the currency affect exports and imports? **Solution: Appreciation of the currency implies that lesser rupees are required to buy a dollar, or that a dollar can now buy goods worth lesser rupees than before. Accordingly, exports are likely to take a hit. On the other hand, imports are likely to increase.** **Depreciation of the currency implies that more rupees are required to buy a dollar, or that a dollar can now buy goods worth more rupees than before. Accordingly. exports are expected to increase, while imports will take a hit.**	[4]		
5.	(a)	You go to purchase a textbook in your country for $17.99. That same book will cost you £13.56 in the UK. The exchange rate is £1 per $1.23. What is the PPP? Is the USD	[4]		

		under or overvalued? **Solution: $1.33 Per £1, Overvalued.**			
	(b)	Differentiate between the Pegged and Flexible exchange Rate systems with examples and adequate diagrams. **Ans. Will explain**	[4]		
6.	(a)	Explain the Mint Parity Theory of Exchange Rate Determination. **Ans. Will explain**	[4]		
	(b)	Differentiate between Trade Creation and Trade Diversion with example. **Ans. Will explain**	[4]		
SECTION-D (Learning levels 4,5,6)				Learning levels as per Bloom's taxonomy	Course Outcomes (CO)
7.	(a)	Explain the Theory of Reciprocal Demand with Adequate Diagram. **Solution: Will explain Mill's theory of Reciprocal Demand.**	[4]		
	(b)	Explain 4 factors influencing the foreign exchange rate of the currency. Describe their effect on its appreciation and depreciation. **Solution: Will explain any 4 factors and their effects on its appreciation and depreciation.**	[4]		
8.	(a)	Compare and contrast between the origin and function of the International Monetary Fund and the World Trade Organisation. **Solution: Will explain**	[4]		
	(b)	Highlight on 6 important features of India's EXIM policy, 2022-23. **Solution:Will highlight 6 important features**	[4]		
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