

Questions

Chapter 4

Unit IV: Exchange Rate and Its Economic Effects

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1. Define exchange rate. Distinguish between direct quote and indirect quote?
2. Distinguish between Currency Board Arrangements and fixed peg arrangement?
3. What is meant by crawling peg?
4. What do you mean by managed floating exchange rate?
5. State the major sources of supply of foreign exchange?
6. Explain what actions should the central bank of a country take to correct currency depreciation?
7. What is devaluation? When does a country resort to devaluation?
8. Explain the different sources of demand and supply of foreign exchange?
9. Explain how 'depreciation of currency' promotes exports of a country?
10. Explain the effect of appreciation of domestic currency on imports and exports?
11. Differentiate between fixed exchange rate system and flexible rate system?
12. Write short notes on:-
 - a. Spot market
 - b. Forward market
13. When foreign exchange rate in a country is on the rise what impact is it likely to have on imports and how?
14. Explain the distinction between depreciation and devaluation of domestic currency by giving examples?
15. How is the exchange rate determined in a flexible exchange rate system?
16. Write the merits and demerits of fixed exchange rate system?
17. Devaluation and Depreciation of currency is one and the same thing. Do you agree? How do they affect the exports of a country?

18. With a diagram show the effect of increase and decrease in demand of a foreign currency on the exchange rate under a flexible exchange rate system?
19. With a diagram show the effect of decrease in supply of a foreign currency on the exchange rate under a flexible exchange rate system?
20. Distinguish between fixed exchange rate system and flexible exchange rate system
21. Distinguish between managed floating system and clean floating system
22. What are the merits and demerits of fixed exchange rate system
23. Explain the merits and demerits of flexible exchange rate system
24. What is meant by nominal exchange rate? How is it determined under flexible exchange rate regime?
25. Distinguish between nominal exchange rate and real exchange rate
26. Write a note on determination of equilibrium rate of exchange?
27. What are the major features of foreign exchange market? Who are the major participants in the forex market?
28. Distinguish between forward market and spot market for forex
29. How does giving incentives for exports influence foreign exchange rate? Explain.
30. What is 'appreciation' of domestic currency? What are its likely effects on exports and how?
31. Explain the effect of appreciation of domestic currency on imports.
32. Explain the effect of depreciation of domestic currency on exports.
33. Distinguish between devaluation and depreciation of domestic currency.
34. Explain the demerits of fixed exchange rate and flexible exchange rate.
35. What is meant by spot price of a currency?
36. Explain the effects of currency depreciation? Do you consider a weak currency is advantageous to a country?
37. What possible effects does currency depreciation have on the domestic economy of a country?

38. Explain how currency appreciation can lead to unemployment in some sectors of the domestic economy?
39. How will a stronger appreciated dollar affect the following economic agents?
 - a) A British firm exporting to the US and receiving dollars
 - b) A US investment trust investing in a Canadian government bond.
 - c) A US tourist visiting India
40. Explain the rationale of central bank participation in foreign exchange market?
41. What is the reason for participating in the forex forward market?
42. What is arbitrage in a forex market? What is its effect
43. A U.S financial investor who has invested in India finds that dollar has become stronger by the time he wanted to repatriate his earnings. How will this affect his returns?
44. Why does the price of any one currency tend to be the same in all financial centers?
45. Define 'real exchange rate'. What purpose does it serve?
46. Distinguish between managed float and independent float currency regimes
47. Enumerate six important effects of depreciation in exchange rate on domestic economy?
48. 'Foreign capital inflows are characteristically vulnerable when local currency weakens' Elucidate
49. Do you think high exchange rate volatility may adversely affect the domestic industries? How?
50. How does depreciation of currency affect countries with foreign currency denominated government debts?
51. 'A depreciation or devaluation is likely to affect a country's terms of trade' Elucidate
52. Do you think depreciation can cause consumer price inflation in the domestic economy? How?

- 53. Do you think depreciation of domestic currency can cause contractionary effects in the domestic economy? How?
- 54. Explain the effect of appreciation and depreciation of domestic currency on the international competitiveness of domestic industries, other things remaining the same?
- 55. 'Exchange rate changes affect economic activity in the domestic economy' Explain
