M. A. DEGREE (C.S.S.) EXAMINATION, MARCH 2017
SEMESTER IV – ECONOMICS
EC4C15M - GLOBAL TRADING AND MONETARY SYSTEM

Time Three Hours   **Maximum Marks: 75**

PART A

I.   Answer any five questions Each question carries 3 marks

1.   Price specie flow mechanism.
2.   Suppose £1 exchanges for $2 or for 250 Yen and $1sells for 130 Yen, at the same time. Explain how you will make profit, if you are an Arbitrageur.
3.   Define balance of trade
4.   Why external balance is not a policy problem in flexible exchange rate system?
5.   How FDI differs from portfolio investment?
6.   What is NIEO?
7.   What is OLI paradigm?   **(5x3= 15)**

PART B

II.   Answer any six questions. Each question carries 5 marks.

8.   What are the merits of flexible exchange rate?
9.   Explain the purchasing power parity theory
10. Distinguish between futures and forward contracts
11. What is exchange risk? What are the means of covering it?
12. Explain the structure of balance of payments
13. What is meant by elasticity approach? How it evaluates the effects of devaluation?
14. Explain the assignment problem
15. How the monetary and fiscal policies are combined to achieve the policy targets?
16. Is there any secular decline in the terms of trade of less developed countries?

(6x5=30)

PART C

III.   Answer any two questions. Each question carries 15 marks

17. Does the monetary approach adequately explain the determination of exchange rate?
18. Explain the features, functions and structure of foreign exchange market. What are the mechanisms that it offers for covering exchange risk?
19. Explain the absorption approach to devaluation
20. Examine how the Mundell-Fleming model explains the problems of internal and external balance**.**

(2x15=30)