CHAPTER-6 | Open Economy Macroeconomics

QUIZ PART-02

1. **Currency appreciation refers to:**
   A. Increase in the value of domestic currency in terms of foreign currency
   B. Decrease in the value of domestic currency in terms of foreign currency
   C. Increase in the value of foreign currency in terms of domestic currency
   D. Government-led increase in the value of currency (A)

Explanation : Appreciation means domestic currency becomes more valuable, e.g., $1 falls from ₹75 to ₹70.

2. **A likely effect of currency appreciation is:**
   A. Increase in exports
   B. Decrease in imports
   C. Decrease in national income
   D. Both A and C (C)

Explanation: Appreciation reduces exports, raises imports, and leads to a decline in national income.

3. **Currency depreciation means:**
   A. Increase in domestic currency value
   B. Decrease in domestic currency value in terms of foreign currency
   C. Government-led fall in domestic currency
   D. Fall in foreign currency value (B)

Explanation: Depreciation occurs when domestic currency loses value in the market, e.g., $1 rises from ₹70 to ₹75.

4. **Which of the following is an effect of currency depreciation?**
   A. Decrease in exports
   B. Increase in imports
   C. Increase in national income
   D. Both A and B (C)

Explanation : Depreciation boosts exports, lowers imports, and raises national income.

5. **Devaluation differs from depreciation because:**
   A. Devaluation is government-led, depreciation is market-driven
   B. Devaluation is market-driven, depreciation is government-led
   C. Both occur only in fixed exchange rate system
   D. Both occur only in flexible exchange rate system (A)

Explanation: Devaluation is a deliberate government act under fixed exchange rates, while depreciation is due to market forces under flexible exchange rates.

6. **Revaluation refers to:**
   A. Market-led rise in currency value
   B. Government-led rise in currency value under fixed exchange system
   C. Fall in currency value due to market forces
   D. None of the above (B)

Explanation: Revaluation is government-led increase in value under fixed exchange rates, unlike appreciation, which is market-driven.

7. **The demand for foreign exchange arises from:**
   A. Exports of goods
   B. Tourism, repayment of loans, and imports
   C. Foreign investment
   D. Grants from abroad (B)

Explanation: Foreign exchange demand arises from payments abroad, such as imports, tourism, transfers, and loan repayments.

8. **The supply of foreign exchange arises from:**
   A. Imports of goods
   B. Outflow of unilateral transfers
   C. Foreign investment, exports, and grants from abroad
   D. Repayment of loans (C)

Explanation: Supply is generated by inflows like exports, foreign investment, unilateral transfers, and loans from the rest of the world.

9. **Under a flexible exchange rate system, equilibrium exchange rate is determined by:**
   A. Central bank intervention
   B. Government regulation
   C. Interaction of demand and supply of foreign exchange
   D. Gold standard system (C)

Explanation: In a flexible exchange rate regime, the equilibrium rate is determined by the demand and supply forces of foreign exchange.

10. **A fall in the exchange rate from OR2 to OR1 with higher demand for foreign currency represents:**
    A. Excess supply of foreign currency
    B. Excess demand for foreign currency
    C. No change in demand and supply
    D. Currency appreciation (B)

Explanation : At lower rates, demand exceeds supply, creating excess demand for foreign exchange.