



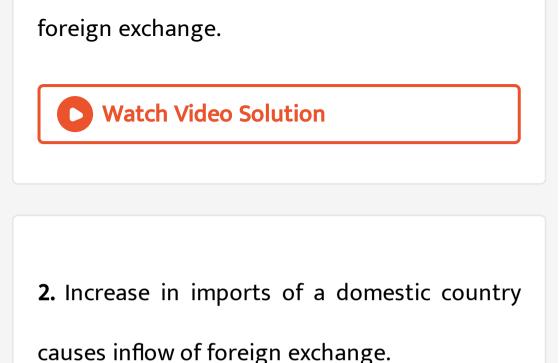
ECONOMICS

BOOKS - RADHA BHUGANA ECONOMICS (HINGLISH)

FOREIGN EXCHANGE RATE

Let Us Recapitulate

1. Foreign exchange rate is determined by market forces of demand and supply for



3. There is negative relation between foreign exchange rate and demand for foreign exchange.



4. For the given exchange rates, mention which currency is appreciating and which one

is depreciating

	Old exchange rate	New exchange rate	Appreciating currence		
1.	1E = \$2	1£ = \$3	Appreciating currency	Depreciation currency	conency /
2.	1\$ = 100¥	1\$ = 105¥			
3.	₹50 = 1\$	₹65 = 1\$			
4.	₹140 = 4£	₹120 = 4£		,	
5.	1€ = ₹60	1€ = ₹80			

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Multiple Choice Questions

1. Foreign exchange is a stock of

A. foreign currencies

B. securities issued by foreign corporates

C. bonds issued by foreign corporates

D. all of these

Answer: B



2. When foreign exchange rate rises, the demand of foreign exchange

A. rises

B. falls

C. does not change

D. none of these

Answer: C

3. Decreases in the value of domestic currency

in terms of foreign currency is

A. appreciation of domestic currency

B. revaluation of domestic currency

C. depreciation of domestic currency

D. none of these

Answer: C

4. Appreciation of domestic currency

encourages

A. imports

B. exports

C. foreign trade

D. all of these

Answer: A

5. Foreign exchange market constitutes

A. central bank

B. brokers

C. commercial banks

D. all of these

Answer: D



6. Foreign exchange rate is determined by:

A. demand for foreign exchange

B. supply of foreign exchange

C. both a and b

D. neither a nor b

Answer: C

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7. Other things remaining unchanged, when in

a country foriegn exchange rate rises, national

income is:

A. likely to rise

B. likely to fall

C. likely to rise and fall both

D. not affected

Answer: A



8. Other things reamining the same, when in ac country the market price of foreign currency falls, natinal income is liekely :

A. to rise

B. to fall

C. to rise or to fall

D. to remain unaffected

Answer: B

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9. Other things remaining the same, when foreign currency becomes cheaper, the effect on national incomes is likely to be:

A. Positive

B. Negative

C. Positive and negative both

D. No effect

Answer: B

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10. Flexible exhange rate system is also known

as:

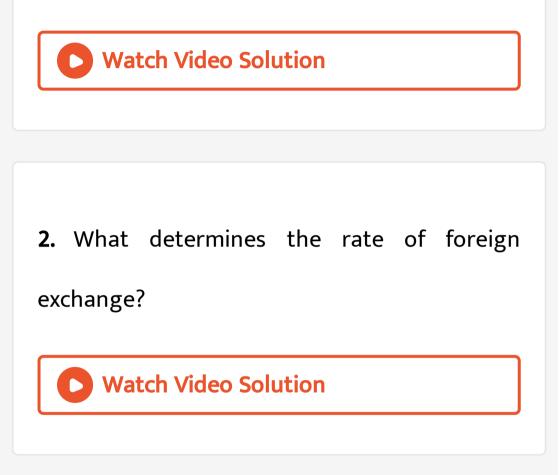
- A. Managed floating system
- B. Pegged exchange rate system
- C. Floating exchange rate system
- D. None of these

Answer: C

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Objective Type Questions

1. What is meant by foreign exchange ?



3. How is foreign exchange rate determined?

4. Define foreign exchange market.

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5. What is the nature of i) Relation between price and demand of foreign exchange ii) Relation between price and supply of foreign exchange?

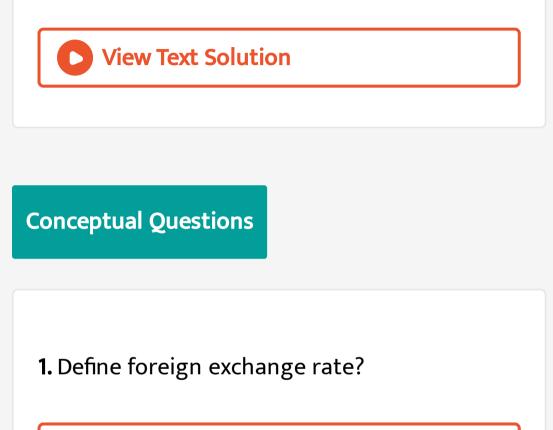
6. What is the major reason for rise in demand

for foreign currency when its price falls?



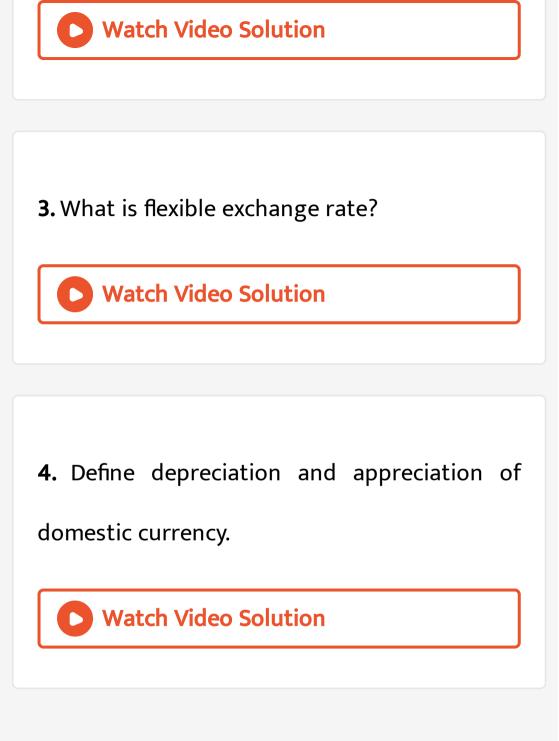
7. What is the major reason for increase in supply of foreign exchange when its prices rises?







2. Define fixed exchange rate.



5. What are the causes for demand (outflow)

of foreign exchange?

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6. What are the causes for supply (inflow) of

foreign exchange?



7. What is the difference between the spot

rate and forward rate?

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8. What is the basic difference between the

sport market and forward market?



Higher Order Thinking Skills

1. What is demand for foreign exchange for

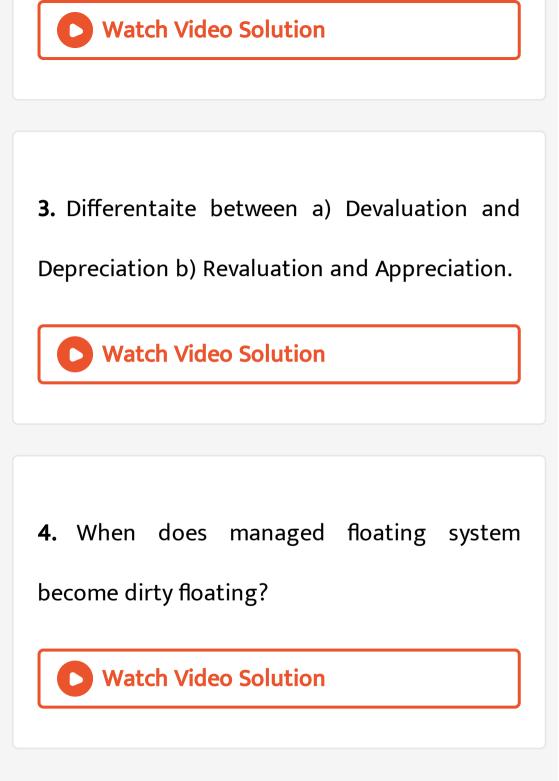
speculative activities?



2. State whether the following items demand

or supply of foreign exchange.

- i) Indian going to USA for education.
- ii) Import of goods from Japan.
- iii) Foreign tourists in India.
- iv) Bought 1500 US dollars for speculation.
- v) Exports to England.



 a) What is the depreciation of domestic currency in terms of US dollar? Explain with a diagram.

b) How it will affect your cost of education, if you are planning to go to USA for higher studies?

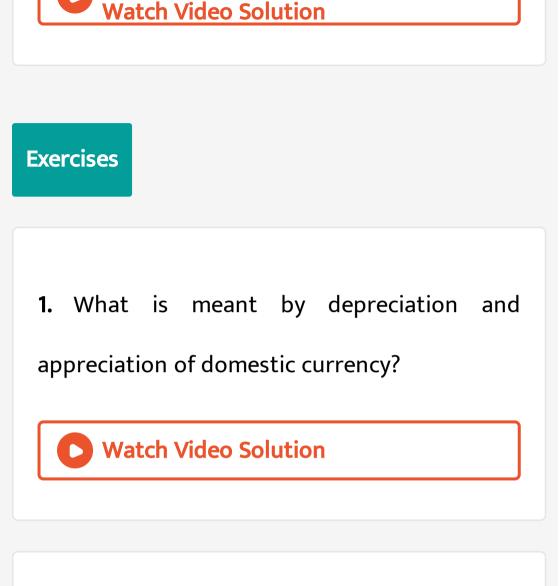


2. Appreciation of Indian currency implies strengthening of Indian rupee. However exporters do not favour appreciation of Indian currency. Why?

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3. The market price of US dollar has increased considerably leading to rise in prices of the imports of essentials goods. What can central bank do to ease the situation?

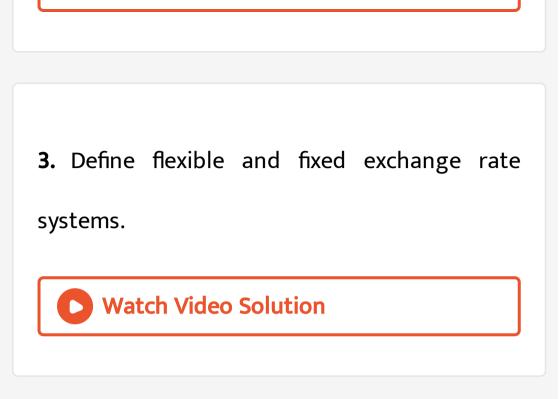




2. What do you mean by appreciation of

domestic currency?





4. State three sources of supply of foreign

exchange.

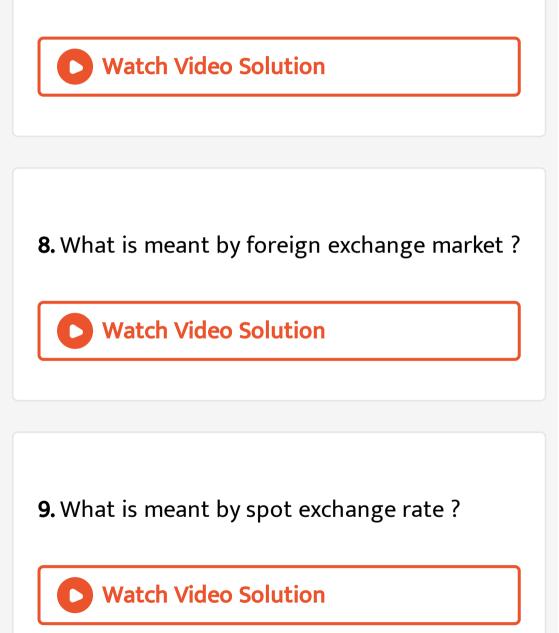
5. What is meant by foreign exchange rate

under flexible exchange rate regime?

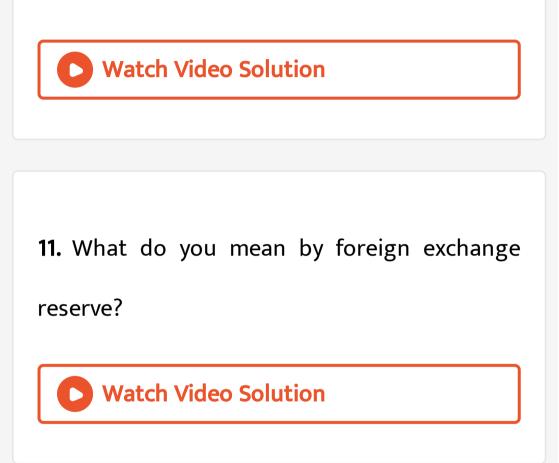
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6. The price of one US dollar has fallen from Rs50 to Rs 48. Has the Indian currency appreciated or depreciated?

7. What is meaning of forward market ?

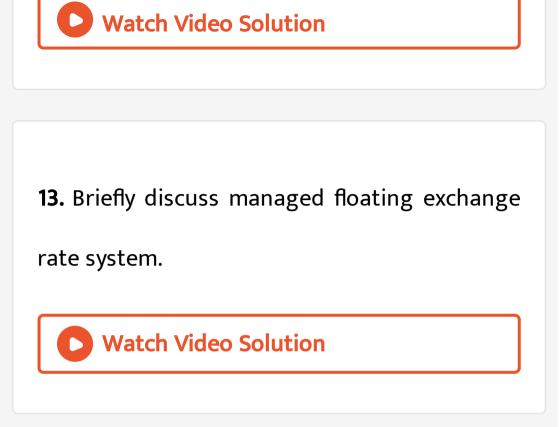


10. What is meant by foreign exchange rate ?



12. What are the two sources of demand for

foreign exchange?



14. What are the effects of depreciation of

domestic currency on exports and imports?



15. State the three function of foreign

exchange market.



16. How can RBI help in bringing down the

foreign exchange rate which is very high?

17. How can increase in foreign direct investment affect the price of foreign exchange?



18. What is floating exchange rate?



19. What is devaluation?



20. Other things reamining the same, when in ac country the market price of foreign currency falls, natinal income is liekely :

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Short Anwers Type Questions 3 4 Marks

Explain the effect of depreciation of domestic currency on exports.
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2. Explain two sources each of demand and supply of foreign exchange.

3. Explain the effect of appreciation of domestic currency on imports. **Watch Video Solution**

4. What is meant by foreign exchange rate? Why doest a rise in foreign exchange rate cause a rise in supply of foreign exchange?

5. What is meant by foreign exchange rate?

Give three reasons why people desire to have

foreign exchange.



6. State one reason for rise in demand for a

foreign currency when its price falls.



7. Why does the demand curve of foreign

exchange slope downwards?

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8. When price of a foreign currency falls, the demand for that foreign currency rises and supply falls. Explain why?

9. When price of a foreign currency rises, its

demand falls. Explain why.

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10. When price of a foreign currency rises, its

supply also rises. Explain why.

11. How is exchange rate determined in the

foreign exchange market? Explain.

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12. Foreign exchange rate in India is one the rise recently. What impact is it likely to have on Imports and how?

13. Foreign exchange rate in India is on the rise recently. What impact is it likely to have an exports & imports and how?



14. Explain the effect of appreciation of domestic currency on exports.

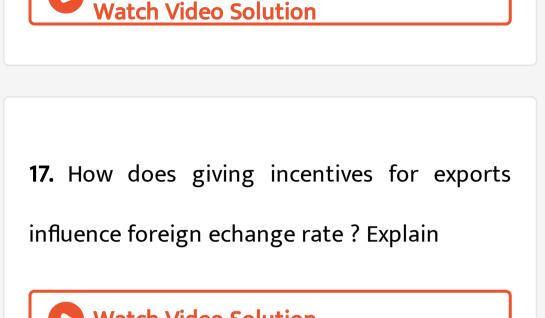


15. Recently government of India has doubled the import duty on gold. What impact is it likely to have on Foreign exchange rate and how?

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16. Visist to foreign countries for sightseeeing etc.by the people of india. What will be its likely impact of foreign exchange rarte and how ?





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18. What is depreciation of Rupee? What is its

likely impact on Indian imports and how?

19. What are fixed and flexible exchange rates?

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20. Explain the meaning of managed floating					
exchange rate.					
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21. Describe any three sources of demand for

foreign exchange.



22. Give the mening of devaluation and depreciation of domestic currency.

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23. Devaluation and Depreciation of currency

is one and the same thing`. Do you agree? How

do they affect the exports of a country?

1. Discuss the Managed Floating Rate system.

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2. Discuss in detail the major reasons for demand and supply of foreign exchange.

3. What is a foreign exchange market? Discuss the major functions of foreign exchange market.



4. How is exchange rate determined under a

flexible exchange rate regime?



5. Explain the effect of appreciation and depreciation of currency on Imports.
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6. How do excess demand of foreign exchange

affect foreign exchange rate?