



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

foreign exchange.



Watch Video Solution

2. Increase in imports of a domestic country causes inflow of foreign exchange.



Watch Video Solution

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



Watch Video Solution

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

<i>Old exchange rate</i>	<i>New exchange rate</i>	<i>Appreciating currency</i>	<i>Depreciating currency</i>
1. 1£ = \$2	1£ = \$3		
2. 1\$ = 100¥	1\$ = 105¥		
3. ₹50 = 1\$	₹65 = 1\$		
4. ₹140 = 4£	₹120 = 4£		
5. 1€ = ₹60	1€ = ₹80		



View Text Solution

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



View Text Solution

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



Watch Video Solution

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



Watch Video Solution

4. Appreciation of domestic currency encourages

A. imports

B. exports

C. foreign trade

D. all of these

Answer: A



Watch Video Solution

5. Foreign exchange market constitutes

A. central bank

B. brokers

C. commercial banks

D. all of these

Answer: D



Watch Video Solution

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



Watch Video Solution

7. Other things remaining unchanged, when in a country foreign 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



View Text Solution

8. Other things remaining the same, when in a country the market price of foreign currency falls, national income is likely to:

A. to rise

B. to fall

C. to rise or to fall

D. to remain unaffected

Answer: B



Watch Video Solution

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



Watch Video Solution

10. Flexible exchange 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



Watch Video Solution

Objective Type Questions

1. What is meant by foreign exchange ?



Watch Video Solution

2. What determines the rate of foreign exchange?



Watch Video Solution

3. How is foreign exchange rate determined?



Watch Video Solution

4. Define foreign exchange market.



[Watch Video Solution](#)

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



[Watch Video Solution](#)

6. What is the major reason for rise in demand for foreign currency when its price falls?



[Watch Video Solution](#)

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



[Watch Video Solution](#)

8. What is primary value?



[View Text Solution](#)

Conceptual Questions

1. Define foreign exchange rate?



[Watch Video Solution](#)

2. Define fixed exchange rate.



Watch Video Solution

3. What is flexible exchange rate?



Watch Video Solution

4. Define depreciation and appreciation of domestic currency.



Watch Video Solution

5. What are the causes for demand (outflow) of foreign exchange?



Watch Video Solution

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



Watch Video Solution

7. What is the difference between the spot rate and forward rate?



[View Text Solution](#)

8. What is the basic difference between the sport market and forward market?



[View Text Solution](#)

Higher Order Thinking Skills

1. What is demand for foreign exchange for speculative activities?



Watch Video Solution

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.



Watch Video Solution

3. Differentiate between a) Devaluation and Depreciation b) Revaluation and Appreciation.



Watch Video Solution

4. When does managed floating system become dirty floating?



Watch Video Solution

Value Based Questions

1. 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?



[Watch Video Solution](#)

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



Watch Video Solution

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?





[Watch Video Solution](#)

Exercises

1. What is meant by depreciation and appreciation of domestic currency?



[Watch Video Solution](#)

2. What do you mean by appreciation of domestic currency?



[Watch Video Solution](#)

3. Define flexible and fixed exchange rate systems.



[Watch Video Solution](#)

4. State three sources of supply of foreign exchange.



[Watch Video Solution](#)

5. What is meant by foreign exchange rate under flexible exchange rate regime?



[Watch Video Solution](#)

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



[Watch Video Solution](#)

7. What is meaning of forward market ?



[Watch Video Solution](#)

8. What is meant by foreign exchange market ?



[Watch Video Solution](#)

9. What is meant by spot exchange rate ?



[Watch Video Solution](#)

10. What is meant by foreign exchange rate ?



[Watch Video Solution](#)

11. What do you mean by foreign exchange reserve?



[Watch Video Solution](#)

12. What are the two sources of demand for foreign exchange?



Watch Video Solution

13. Briefly discuss managed floating exchange rate system.



Watch Video Solution

14. What are the effects of depreciation of domestic currency on exports and imports?



Watch Video Solution

15. State the three function of foreign exchange market.



Watch Video Solution

16. How can RBI help in bringing down the foreign exchange rate which is very high?



Watch Video Solution

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



Watch Video Solution

18. What is floating exchange rate?



Watch Video Solution

19. What is devaluation?



[Watch Video Solution](#)

20. Other things remaining the same, when in a country the market price of foreign currency falls, national income is likely to:



[Watch Video Solution](#)

Short Answers Type Questions 3 4 Marks

1. Explain the effect of depreciation of domestic currency on exports.



Watch Video Solution

2. Explain two sources each of demand and supply of foreign exchange.



Watch Video Solution

3. Explain the effect of appreciation of domestic currency on imports.



Watch Video Solution

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



Watch Video Solution

5. What is meant by foreign exchange rate?

Give three reasons why people desire to have foreign exchange.



Watch Video Solution

6. State one reason for rise in demand for a foreign currency when its price falls.



Watch Video Solution

7. Why does the demand curve of foreign exchange slope downwards?



Watch Video Solution

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



Watch Video Solution

9. When price of a foreign currency rises, its demand falls. Explain why.



Watch Video Solution

10. When price of a foreign currency rises, its supply also rises. Explain why.



Watch Video Solution

11. How is exchange rate determined in the foreign exchange market? Explain.



Watch Video Solution

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



Watch Video Solution

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



Watch Video Solution

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



Watch Video Solution

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?



Watch Video Solution

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





[Watch Video Solution](#)

17. How does giving incentives for exports influence foreign exchange rate ? Explain



[Watch Video Solution](#)

18. What is depreciation of Rupee? What is its likely impact on Indian imports and how?



[Watch Video Solution](#)

19. What are fixed and flexible exchange rates?



[Watch Video Solution](#)

20. Explain the meaning of managed floating exchange rate.



[Watch Video Solution](#)

21. Describe any three sources of demand for foreign exchange.



[Watch Video Solution](#)

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



[Watch Video Solution](#)

23. Devaluation and Depreciation of currency is one and the same thing. Do you agree? How do they affect the exports of a country?



[Watch Video Solution](#)

Long Answer Type Questions

1. Discuss the Managed Floating Rate system.



[Watch Video Solution](#)

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



[Watch Video Solution](#)

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



Watch Video Solution

4. How is exchange rate determined under a flexible exchange rate regime?



Watch Video Solution

5. Explain the effect of appreciation and depreciation of currency on Imports.



Watch Video Solution

6. How do excess demand of foreign exchange affect foreign exchange rate?



Watch Video Solution