



ECONOMICS

BOOKS - SANDEEP GARG ECONOMICS (HINGLISH)

FOREIGN EXCHANGE RATE

Note Higher Order Thinking Skills Questions

1. In the following cases, which currency is appreciating and which one is depreciating :

(i) A change from $3\$ = 2 = \text{£}$ to $4\$ = 2\text{£}$

(ii) A change from `Rs.95 =2US \$ "to" Rs.

150=3US

1.

(iii) A change from

$Rs. 140 = 2\text{£}$ to $Rs. 60 = 1\text{£}$

(iv) A change from $Rs. 52 = 1$ Singapore

$\$$ to $Rs. 50 = 1$ Singapore `

1.



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2. State whether the following items constitute demand or supply demand of supply of foreign exchange

(i) India going to USA for medical treatment

(ii) Donation of 500 Million `

2. received from Microsoft

(iii) Import of goods from goods from china

(iv) Indian students going to Australia for MBA

(v) Foreign Tourists to India to visit Taj Mahal

(vi) Purchase of land India in England

(vii) Bought 500 Pounds to sell for speculation



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3. Why does demand for foreign exchange arise of speculative activities ?



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4. why does the demand for foreign currency fall and supply rises when its rise? Explain



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5. Visit to foreign countries for sightseeing etc. by the people of India. What will be its likely impact of foreign exchange rate and how?



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



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



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8. The central bank takes steps to control rise in the price of foreign exchange in economic

values it involves as far as far
the common man is concerned. E



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9. Government takes measures
of restrict autonomous imports
of gold. Explain the economic
values desired to be achieved
from this.



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10. What will be the effect of foreign investments in India on exchange rate ? Explain



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11. Why are foreign rate and supply of foreign exchange directly related ? Explain



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



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13. The Indian Government launched Incredible india or Atulya Bharat Campaign to promote tourism in India . How

will it effect the price of foreign exchange ?



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14. A policy initiated by the Indian Government had an adverse impact on the value of Rupee in relation to foreign exchange. What does this indicate ? Discuss this with the help of a numerical example.

Also explain its effect on the exports and imports of the economy.



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True And False

1. Under flexible exchange rate system, each country fixes its value of currency in terms of some external standard



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2. An increase in demand for imported goods raises the demand for foreign exchange.



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3. A depreciation of India rupees will occur when $Rs. 75$ have to be paid to exchange one US `

3. instead of present rate

`Rs. 70//

3.



4. Under managed

floating rate system ,

central bank

maintains reserves of
foreign exchange



5. Depreciation on
domestic currency
leads to rise in
exports



6. A rise in supply of a currency would lead to its appreciation, assuming no change in other factors.



7. Devaluation and depreciation of

currency are one the
same thing



8. Demand for
American goods will
rise in India due to
appreciation of Indian
currency



9. In spot market, sale and purchase of foreign currency is settled immediately



10. Large international reserves are required to be maintained by the government in fixed

and flexible exchange
rate system



11. Increase in foreign
exchange rate leads
to rise in supply of
foreign exchange



12. Flexible exchange rate is determined by the government



Guidelines To Ncert Questions

1. How is the exchange rate determined under a

flexible exchange rate

regime ?



2. Differentiate

between devaluation

and depreciation



3. Would the central bank need to intervene in a managed floating system? Explain why



4. Are the concepts of demand for domestic goods and domestic

demand for goods

the same ?



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5. Inflation is higher in country A than in Country B, and the exchange rate between the two countries is fixed, what is likely to

happen to the trade balance between the two countries ?



Very Short Answer Type Questions

1. What is meant by foreign exchange ?



2. What is meant by foreign exchange rate ?



3. What is meant by depreciation of domestic currency ?



4. Give the meaning

of currency

appreciation



5. Mention the effect

of exchange

depreciation on

exports



6. What is a fixed exchange rate ?



7. Define flexible exchange rate system



8. Give meaning of managed floating exchange rate.



9. Name the two sources of demand or outflow of foreign exchange. Itbr? OR
Mention two reasons

for the people to
acquire foreign
exchange.



10. What is the shape
of the demand curve
of foreign exchange ?



11. State two sources of supply of foreign currency

OR

What are the ways in which foreign exchange can flow into the domestic market ?



12. Why does supply curve of foreign exchange slope upwards ?



13. How is equilibrium exchange rate determined in the foreign exchange market ?





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14. What is meant by foreign exchange market ?



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15. State the three function of foreign exchange market.



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16. What is meaning of forward market ?



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17. What is meant by spot exchange rate ?



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18. Give the meaning of forward exchange rate



19. The price of 1 US Dollar has fallen from $Rs. 50 \rightarrow Rs. 48$. Has the indian currency

appreciated or

depreciated ?



20. What will be the effect on imports if foreign exchange rate increases ?



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



22. How can Reserve Bank of India help in bringing exchange

rate which is very
high ?



23. Name the market
exchange rate system
in which the Central
Bank can actively
intervene



24. What is devaluation ?



Short Answer Type Questions

1. Give the maning of ,
 - (i) Foreign Exchange ,
 - (ii) Foreign Exchange

Rate , (iii) Foreign
Exchange Market.



2. What is meant by
foreign exchange rate
? Give three reasons
why people desire to
have deople desire to
have foreign
exchange.





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3. Give two reasoning
for rise in demand of
a foreign currecny
when its prices falls



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4. Give three sources
each of demand and
supply of foreign

exchange

OR

Explain two sources
each of demand and
supply of foreign
exchange ?



5. Why does the
demand curve of

foreign exchange slop

downwards ?



6. Givin two examples

explain the realation

between the rise in

price of a currency

and its demand



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



8. Briefly discuss the concepts of currency

appreciation and

currency depreciation



9. Explain how

Depreciation of

currency promotes

exports of a country ?

OR

Explain the effect of

rise in price of foreign
currency on exports.



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



11. Distinguish between devaluation and depreciation of domestic currency



12. What is meant by fixed exchange rate system and flexible exchange rate system

?

OR

What are fixed and flexible exchange rates ?



13. Write short notes on : (i) Spot market ,
(ii) Forward market.



14. Distinguish between fixed and flexible exchange rate.



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



Solution

16. Explain why there is a rise in demand for foreign exchange when its price falls



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17. Give the meaning of foreign exchange rate. How is it

determined under
flexible exchange rate
regime?



18. Explain the effect
of a fall in the price of
foreign currency on
exports.



19. How is exchange rate determined in the price of foreign exchange market ?

Explain.



20. In India , exchange rate of U. S. Dollar has been risen considerably. What it is

likely impact on
Indian exports and
why?



21. Foreign exchange
rate have risen
condiderably in a
country . What is its
likely impact on

impots of that
country and why ?



22. Explain the effect
of appreciation rate
in a country is one
rise, what impact is it
likely to have on
imports and how ?



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



24. What is the effect of depreciation of domestic currency on exports



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25. What is the role of a Central Bank in the following exchange rate : (a) Fixed exchange , (b) Flexible exchange , and (c) Managed floatign



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Solution

26. Explain the meaning of Managed Floating Exchange Rate.



27. Why are foreign exchange rate and demand for foreign exchange inversely related ? Explain





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28. Appreciation and Revaluation of currency are one and the same thing . Do you agree ?
Comment.



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Long Answer Type Questions

1. Explain the determination of equilibrium exchange rate in foreign exchange market.

OR

Equilibrium rate of exchange is determined when the

demand for foreign exchange is equal to its supply. Explain this statement



2. Briefly discuss the major reasons for demand and supply of foreign exchange



3. What is a foreign exchange market ?

Discuss the major functions performed by a foreign exchange marketl.



4. Discuss birefly the meanings of

(i) Fixed Exchange
Rate

(ii) Flexible Exchange
Rate

(iii) Managed Floating
Exchange Rate



5. Give the meaning
of foreign exchange
rate. Giving reason,

explain the relation
between foreign
exchange rate and
demand for foreign
exchange



6. Explain three
source of demand for
foreign exchange and
three source of

supply of foreign
exchange.



7. Explain the
distinction between
the flexible exchange
rate and the
managed floating
exchange rate.



8. Explain by giving examples, the distinction between depreciation and devaluation of domestic currency.



9. Distinguish between the fixed

exchange rate and the floating exchange rate.



10. Define fixed exchange rate. How is the exchange rate determined in a flexible exchange rate system ?





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Solution

Revision Exercise

1. Which of the following items raises the supply of foreign exchange ?

A. Import of goods
from China

B. India students

going to USA

for MBA

C. Donation of 50

million `

1. Which of

the

following

items

raises the

supply of
foreign
exchange ?

A. Import

of

goods

from

China

B. India

students

going

to

USA

for

MBA

C. received

from

Microsoft

D. Purchase

of

land

in

England

Answer: C
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Solution

2. A change

from

$Rs. 70 = 1\text{£}$ to $Rs. 60 = 1\text{£}$

indicates

that R_s is

A. Appreciating

B. Depreciating

C. Neither

(a)

nor

(b)

D. Either

(a) or

(b)

Answer: A
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Solution

3. _____

refers to a

system in

which

foreign

exchange

rate is
determined
by market
forces and
central
bank
influences
the
exchange
rate
through
intervention

A. Flexible

Exchange

line

parallel

to X-

axis

B. Managed

Floating

Rate

System

C. Floating

Exchange

Rate

D. Fixed

Exchange

Rate

System

Answer: B [Watch](#)



Solution

4. Supply
curve of
foreign
exchange :

A. Horizontal

straight

line

parallel

to X-

axis

B. Vertical

straight

line

parallel

to Y-

axis

C. Slope

downwards

D. Slope

upwards

Answer: D
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Solution

5.

Depreciation

of

domestic

currency

leads to

rise in:

A. Exports

B. Imports

C. Both

(a)

and

(b)

D. Neither

(a)

nor

(b)

Answer: A
Watch



Solution

6. Imports
of goods
and
services
raises the
_____ of

foreign

exchange.

A. Supply

B. Demand

C. Both

(a)

and

(b)

D. Neither

(a)

nor

(b)

Answer: B
Watch



Solution

7. Flexible

Exchange

Rate

System is

also known

as :

A. Supply

B. Demand

C. Bothe

(a)

and

(b)

D. Neither

(a)

nor

(b)

Answer: C
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Solution

8.

Devaluation

of currency

means :

A. Reduction

in

the

value

of

domestic

currency

by

the

market

forces

B. Reduction

in

the

value

of

domestic

currency

by

the

government

C. Both

(a)

and

(b)

D. Neither

(a)

nor

(b)

Answer: B
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Solution

9. Other
things
remaining
unchanged,
when in a
country
the price

of foreign

currency

rises,

national

income is :

A. Likely

to

rise

B. Likely

to

fall

C. Likely

to

rise

and

fall

both

D. Not

affected

Answer: A
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Solution

10. Other things remaining the same, when in a country the market price of foreign currency

falls,

national

income is

likely :

A. to

rise

B. to

fall

C. to

rise

or to

fall

D. to

remain

unaffected

Answer: B
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Solution

11. 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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Solution

12. The
value of US
Dollar \$1
has gone
down from

Rs. 73 → *Rs. 70*

. It means

that :

A. Indian

rupee

has

appreciated

B. US

Dollar

has

depreciated

C. Bothe

(a)

and

(b)

D. None

of

these

Answer: C [Watch](#)



Solution