306 – International Business Economics

1. According to David Ricardo's theory of comparative advantage, what is the key determinant of trade?

a) Absolute advantage

b) Specialization

c) Factor abundance

d) Currency exchange rates

Answer: b) Specialization

2. In the Heckscher-Ohlin model, trade is driven by differences in:

a) Absolute advantage

b) Comparative advantage

c) Factor endowments

d) Opportunity costs

Answer: c) Factor endowments

3. Krugman's model of Intra-Industry Trade focuses on the trade between countries with:

a) Similar factor endowments

b) Different factor endowments

c) Absolute advantage

d) No trade barriers

Answer: a) Similar factor endowments

3. Unilateral trade policies are enacted by a country:

a) In collaboration with other nations

b) Without any reciprocal agreements

c) Exclusively with neighboring countries

d) Under the guidance of the World Bank

Answer: b) Without any reciprocal agreements

4. Dumping in international trade refers to:

a) Exporting goods at lower prices than in the domestic market

b) Eliminating tariffs

c) Implementing export subsidies

d) Currency manipulation

Answer: a) Exporting goods at lower prices than in the domestic market

5. What is the primary purpose of the spot market in the foreign exchange market?

a) Trading currency for future delivery

b) Buying and selling currency for immediate delivery

c) Trading currency options

d) Speculating on currency values

Answer: b) Buying and selling currency for immediate delivery

6. In the context of foreign exchange, what does arbitrage involve?

a) Speculating on future exchange rates

b) Exploiting price differences to make a profit

c) Eliminating exchange rate risk

d) Hedging against currency fluctuations

Answer: b) Exploiting price differences to make a profit

7. Under a fixed exchange rate system, how are exchange rates determined?

a) By market forces

b) By government intervention

c) By supply and demand

d) By the gold standard

Answer: b) By government intervention

8. Economic risk indicators for Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) include:

a) Exchange rate stability

b) Political stability

c) Trade deficits

d) Inflation rates

Answer: b) Political stability

9. Special Drawing Rights (SDRs) are issued by which international organization?

a) World Bank

b) International Monetary Fund (IMF)

c) World Trade Organization (WTO)

d) Bank for International Settlements (BIS)

Answer: b) International Monetary Fund (IMF)

10. The Eurocurrency Market involves the trading of currencies:

a) Within European Union countries only

b) Outside their country of origin

c) Pegged to the Euro

d) Limited to Central Banks

Answer: b) Outside their country of origin