<u>MCQ on International Trade Class Date 04-05 January, 2025</u>

1. **Which of the following is a key macroeconomic factor that influences international trade?**
   a) Domestic labor laws
   b) Exchange rate fluctuations
   c) Local municipal taxes
   d) Organizational structure of companies

2. **What happens to a country's exports if its currency depreciates?**
   a) Exports become more expensive in international markets
   b) Exports become cheaper in international markets
   c) No impact on exports
   d) Exports are completely restricted

3. **Which of the following policies can directly impact international trade?**
   a) Fiscal policy
   b) Monetary policy
   c) Trade policy
   d) All of the above

4. **A trade surplus occurs when:**
   a) A country's imports exceed its exports
   b) A country's exports exceed its imports
   c) A country's GDP growth is negative
   d) A country has a high inflation rate

5. **Which of the following international organizations facilitates global trade by reducing trade barriers?**
   a) World Bank
   b) International Monetary Fund (IMF)
   c) World Trade Organization (WTO)
   d) United Nations (UN)

6. **How does inflation in a country typically affect its international trade?**
   a) Enhances competitiveness of exports
   b) Reduces competitiveness of exports
   c) Increases trade balance
   d) Has no impact on trade

7. **The term "current account deficit" refers to:**
   a) An excess of capital inflows over outflows
   b) An excess of imports of goods and services over exports
   c) A situation where foreign exchange reserves exceed liabilities
   d) A reduction in government spending

8. **When a central bank raises interest rates, the effect on international trade is likely to be:**
   a) Strengthening of the local currency and reduced exports
   b) Weakening of the local currency and increased exports
   c) No impact on trade
   d) Strengthening of trade barriers

9. **The term "terms of trade" refers to:**
   a) The legal agreements governing trade policies
   b) The ratio of export prices to import prices
   c) Trade agreements signed between two nations
   d) The exchange rate determined by the government

10. **A country with a strong comparative advantage in producing a good will likely:**
   a) Import that good
   b) Export that good
   c) Produce it only for domestic consumption
   d) Cease production of that good

11. **Which economic theory focuses on the benefits of countries specializing in goods where they have a comparative advantage?**
    a) Absolute Advantage Theory
    b) Comparative Advantage Theory
    c) Keynesian Theory
    d) Dependency Theory

12. **What role does foreign direct investment (FDI) play in international trade?**
    a) Encourages export of goods from the host country
    b) Discourages cross-border trade
    c) Reduces the flow of goods and services
    d) Focuses solely on domestic investment

13. **The theory of absolute advantage was proposed by:**
    a) David Ricardo
    b) Adam Smith
    c) Eli Heckscher
    d) Paul Samuelson

14. **Which of the following is the key idea of the theory of comparative advantage?**
    a) A country should produce goods in which it has the lowest opportunity cost.
    b) A country should produce goods in which it has the highest productivity.
    c) A country should aim to become self-sufficient.
    d) Trade occurs only when countries have identical resources.

15. **The Heckscher-Ohlin theory suggests that international trade is driven by:**
    a) Differences in technology
    b) Differences in resource endowments
    c) Political agreements between nations
    d) Government trade policies

16. **The Product Life Cycle Theory, proposed by Raymond Vernon, explains trade patterns based on:**
    a) Comparative advantage
    b) Stages of a product's life cycle
    c) Differences in currency values
    d) Tariff and non-tariff barriers

17. **Which of the following best describes the theory of mercantilism?**
    a) Countries should export more than they import to accumulate wealth.
    b) Trade should be driven by comparative advantage.
    c) Trade is beneficial only between technologically advanced nations.

18. **Which of the following best describes Foreign Direct Investment (FDI)?**
    a) Short-term investment in foreign stock markets
    b) Long-term investment in a foreign country by acquiring physical assets or stakes in businesses
    c) Purchase of government securities in a foreign country
    d) Investments in foreign exchange markets

19. **What is a key characteristic that differentiates FDI from FII?**
    a) FDI focuses on long-term control and ownership, while FII involves short-term portfolio investments.
    b) FDI requires government approval, while FII does not.
    c) FII is only allowed in developed economies, while FDI is not.
    d) FDI is limited to stock market investments.

20. **Which sector in India has traditionally attracted the highest FDI inflows?**
    a) Information Technology
    b) Manufacturing
    c) Services
    d) Agriculture