



FOREIGN EXCHANGE RATE

ASSERTION- REASON QUESTIONS

Sl.No. Question

1 Assertion (A) : Equilibrium exchange rate is determined by the demand for and supply of foreign exchange in the market.

Reason (R) : At equilibrium, demand for foreign exchange is equal to supply of foreign exchange.

- A. Both Assertion (A) and Reason (R) are true and (R) is the correct explanation of (A)
- B. Both Assertion (A) and Reason (R) are true but (R) is not the correct explanation of (A)
- C. Only Assertion (A) is true and Reason (R) is false
- D. Assertion (A) is false but Reason (R) is true

2 Assertion (A) : Rise in the value of domestic currency in terms of foreign currency in the market is called appreciation of domestic currency.

Reason (R) : When there is appreciation of domestic currency, export of domestic country increases.

- A. Both Assertion (A) and Reason (R) are true and (R) is the correct explanation of (A)
- B. Both Assertion (A) and Reason (R) are true but (R) is not the correct explanation of (A)
- C. Only Assertion (A) is true and Reason (R) is false
- D. Assertion (A) is false but Reason (R) is true

3 Assertion (A) : If US dollar exchanges for Rs 70, instead of Rs 64 earlier in foreign exchange market, it is called depreciation of rupee.

Reason (R) : If US dollar exchanges for Rs 45, instead of Rs 60 earlier in foreign exchange market, it is called appreciation of rupee.

- A. Both Assertion (A) and Reason (R) are true and (R) is the correct explanation of (A)
- B. Both Assertion (A) and Reason (R) are true but (R) is not the correct explanation of (A)
- C. Only Assertion (A) is true and Reason (R) is false
- D. Assertion (A) is false but Reason (R) is true

4 Assertion (A) : Gold standard system is an example of fixed exchange rate system.

Reason (R) : In fixed exchange rate system the exchange rate is officially fixed by the

Government.

- A. Both Assertion (A) and Reason (R) are true and (R) is the correct explanation of (A)
- B. Both Assertion (A) and Reason (R) are true but (R) is not the correct explanation of (A)
- C. Only Assertion (A) is true and Reason (R) is false
- D. Assertion (A) is false but Reason (R) is true

5 Assertion (A) Spot market is of daily nature.

Reason (R) : In spot market future transactions are carried out.

- A. Both Assertion (A) and Reason (R) are true and (R) is the correct explanation of (A)
- B. Both Assertion (A) and Reason (R) are true but (R) is not the correct explanation of (A)
- C. Only Assertion (A) is true and Reason (R) is false
- D. Assertion (A) is false but Reason (R) is true

6 Assertion(A):Buyingforeigngoodsisexpenditurefromourcountryanditbecomestheincomeofthatforeign country.

Reason(R):Thepurchaseofforeigngoodsorimportsdecreasesthedomestic demandforgoodsandservicesin our country.

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.

7

Assertion (A): Managed Floating exchange rate system is also called as 'Dirty Floating'

Reason(R): Clean Floating rate is influenced by the intervention of the Central Bank in the Foreign ExchangeMarket.

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.

8 Assertion(A):FixedExchangeratesysteminvolvesactiveinvolvementofcentralbank/governmentof therespectivecountries.

Reason (R): In fixed exchange rate system, once the exchange rate is decided it is usuallykeptas fixedin ordertomaintain thestabilityin economictransactions

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.
- 9 Assertion(A):Purchaseofsecond-handmachineryfromabroadisnotrecordedinbalanceof payment.
Reason(R):Saleandpurchaseofsecond-handgoodsfromabroadarenotincludedintheestimationof nationalincome
- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.
- 10 Assertion(A):IfanIndianbuysaUKCarCompany,itrenters'capitalaccounttransactionsas adebititem.
Reason(R):SaleofassetslikesaleofshareofanIndiancompanytoaChinesecustomerisacredititem
- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.
- 11 Assertion (A): Appreciation of domestic currency means a rise in the price of domestic currency
Reason (R): Appreciation leads to increase in exports.
- A. Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason(R) are true, and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true, but Reason (R) is false.
- D. Assertion (A) is false, but Reason (R) is true
- 12 Assertion (A): Depreciation of domestic currency leads to rise in exports.
Reason (R): Depreciation of domestic currency makes domestic currency relatively cheaper, which leads to increase in exports.
- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true
- 13 Assertion (A): Managed Floating Exchange rate system is a combination of fixed and flexible exchange rate systems.

- Reason (R): In managed floating exchange rate system, central bank decides the limit of Both
- Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true
- 14 Assertion (A): Appreciation of domestic currency means a rise in the price of domestic currency.
Reason (R): Appreciation leads to increase in Exports.
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.
- 15 Assertion (A): Managed floating exchange rate system is also called as ‘Dirty floating’.
Reason (R): Clean floating rate is influenced by the intervention of the central bank in the foreign exchange market.
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.
- 16 **Assertion A:** An increase in demand for imported goods raises the foreign exchange rate.
Reason R: Demand for foreign exchange will increase in order to make the payment for imported goods. Supply of foreign exchange may change; increase in demand will cause the exchange rate to rise.
- Both Assertion and reason are true and reason is correct explanation of assertion.
 - Assertion and reason both are true but reason is not the correct explanation of assertion.
 - Assertion is true, reason is false.
 - Assertion is false, reason is true.
- 17 **Assertion A:** Under managed floating exchange rate system, the Government directly controls the exchange rate.
Reason R: Managed floating exchange rate is decided by market forces (the float part) but remains within a specific range as decided by central bank (the managed part).
- Both Assertion and reason are true and reason is correct explanation of assertion.
 - Assertion and reason both are true but reason is not the correct explanation of assertion.
 - Assertion is true, reason is false.
 - Assertion is false, reason is true.
- 18 **Assertion A:** Flexible exchange rate is determined by the market forces of demand and supply.

Reason R: It is also known as floating exchange rate.

- A. Both Assertion and reason are true and reason is correct explanation of assertion.
- B. Assertion and reason both are true but reason is not the correct explanation of assertion.
- C. Assertion is true, reason is false.
- D. Assertion is false, reason is true

19 **Assertion A :** Both devolution and depreciation of currency encourages the export of a country.

Reason R: Depreciation of currency takes place due to Government, while devaluation takes place due to market forces of demand and supply.

- A. Both Assertion and reason are true and reason is correct explanation of assertion.
- B. Assertion and reason both are true but reason is not the correct explanation of assertion.
- C. Assertion is true, reason is false.
- D. Assertion is false, reason is true

20 **Assertion A:** Depreciation of domestic currency leads to rise in exports to foreign countries.

Reason R: Due to depreciation of domestic currency, more goods can be purchased from India with the same amount of foreign currency.

- A. Both Assertion and reason are true and reason is correct explanation of assertion.
- B. Assertion and reason both are true but reason is not the correct explanation of assertion.
- C. Assertion is true, reason is false.
- D. Assertion is false, reason is true.

21 . **Assertion(A):** Foreign exchange management and control is undertaken by commercial banks.
Reason (B): RBI has to maintain the official rate of exchange of rupee to ensure its stability.

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.

22 **Assertion (A):** Exchange control means the state intervention.

Reason (R): Exchange control means the forex market.

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.

23 **Assertion (A)** countries combat currency weakness caused by instability in emerging markets worldwide

Reasoning(R): Central banks with a dirty float sometimes intervene to steady the market at times of widespread economic uncertainty.

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.
- 24 Assertion (A): The central bank can purchase a large amount of its own currency to limit the amount of devaluation caused by the hedge fund.
Reasoning (R): Central banks sometimes intervene to support a currency that is under attack by a hedge fund or other speculator.
- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.
- 25 Assertion (A): An economic shock refers to any change to fundamental macroeconomic variables or relationships that has a substantial effect on macroeconomic outcomes and measures of economic performance, such as unemployment, consumption, and inflation.
Reason(R): A supply shock is an event that makes production across the economy more difficult, more costly, or impossible for at least some industries.
- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true.

ANSWER

Q.No.	Answer
1	A
2	C
3	B
4	A
5	C
6	A
7	A
8	B
9	D
10	A
11	C
12	A
13	A
14	C
15	A
16	A
17	D
18	B
19	C
20	A
21	B
22	A
23	D
24	D
25	D

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