



ECONOMICS MOCK TEST

WITH
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1. If the spot exchange rate between the British pound and the U.S. dollar is GBP/USD 0.7775, and the spot exchange rate between the Canadian dollar and the British pound is CAD/GBP 1.8325, what is the USD/CAD spot cross exchange rate?
(A) 0.42428.
(B) 1.42477.
(C) 0.70186.
2. The USD/EUR spot exchange rate is 1.3500 and 6-month forward points are -75. The 6 month forward exchange rate is:
(A) 1.3425, and the USD is at a forward discount.
(B) 1.3425, and the USD is at a forward premium.
(C) 1.3575, and the USD is at a forward discount.
3. If the current spot exchange rate for quotes of JPY/GBP is greater than the no-arbitrage 3 month forward exchange rate, the 3-month GBP interest rate is:
(A) equal to the 3-month JPY interest rate.
(B) greater than the 3-month JPY interest rate.
(C) less than the 3-month JPY interest rate.
4. The exchange rate of the Athelstan riyal (ATH) with the British pound is 9.00 ATH/GBP. The exchange rate of the Mordred ducat (MOR) with the U.S. dollar is 2.00 MOR/USD. If the USD/GBP exchange rate is 1.50, the ATH/MOR cross rate is closest to:
(A) 12.00 ATH/MOR.
(B) 3.00 ATH/MOR.
(C) 6.75 ATH/MOR.
5. Two countries trade freely with each other and have agreed to specific tariffs on imports from other countries. The workers in either country may freely cross the common border to work in the other country. The two countries have agreed to common economic policies, but they use separate currencies. This type of cooperation is best described as a(n):
(A) economic union.
(B) monetary union.
(C) customs union.

6. Which of the items below is NOT a valid reason why nations adopt trade restrictions? To
- (A) protect industries in which they have a comparative advantage.
 - (B) prohibit foreign firms from increasing market share by selling products below cost.
 - (C) protect industries that are highly sensitive to national security.
7. In what way does a tariff differ from a quota? A tariff is imposed
- (A) by a single government, and a quota is a worldwide agreement on the total amount of trade allowed.
 - (B) as a tax on imports, and a quota limits the quantity that can be imported.
 - (C) by world organizations, and quotas are imposed by individual countries.
8. Country P begins importing goods from Country Q. In the long run, benefits from this trade relationship will most likely accrue to:
- (A) Country P only.
 - (B) Country Q only.
 - (C) both Country P and Country Q.
9. In the context of international trading blocs, the primary feature of an economic union that distinguishes it from a common market is the adoption of a common:
- (A) currency.
 - (B) set of economic policies.
 - (C) set of trade restrictions with non-members.
10. Which of the following statements about the costs and benefits of international trade is most accurate?
- (A) Increased international trade benefits all groups in the trading countries.
 - (B) The costs of trade are greater than the benefits with regard to domestic employment.
 - (C) The costs of trade primarily affect those in domestic industries that compete with imports.
11. In the currency market, traders quote the:
- (A) base currency rate.
 - (B) nominal exchange rate.
 - (C) real exchange rate.

12. If we compare the prices of goods in two countries through time, we can use the price information in concert with the quoted foreign exchange rate to calculate the:
- (A) interest rate spread.
 - (B) nominal exchange rate.
 - (C) real exchange rate.
13. The sell side of the foreign exchange markets primarily consists of:
- (A) multinational banks that deal in currencies.
 - (B) firms and investors that are hedging their currency risks.
 - (C) firms and investors that require foreign currencies for transactions.
14. With respect to exchange rate regimes, crawling bands are most likely used in a transition toward:
- (A) a fixed peg arrangement.
 - (B) a monetary union.
 - (C) floating exchange rates.
15. An exchange rate at which two parties agree to trade a specific amount of one currency for another a year from today is best described as a:
- (A) future exchange rate.
 - (B) forward exchange rate.
 - (C) real exchange rate.
16. If the U.S. Federal Reserve decides to decrease the money supply, which of the following is most likely to occur in the short run?
- (A) An increase in the real rate of interest.
 - (B) A decrease in the unemployment rate.
 - (C) An increase in the velocity of money similar to decrease in the money supply.
17. If a central bank's targeted inflation rate is above the current rate, the central bank is most likely to:
- (A) increase the overnight lending rate.
 - (B) buy government securities.
 - (C) increase the reserve requirement.

18. The primary objective of a central bank is typically to:
- (A) control inflation.
 - (B) stabilize exchange rates.
 - (C) achieve full employment.
19. If a central bank implements an exchange rate targeting policy successfully, the country's inflation rate is most likely to be:
- (A) less than that of the target currency.
 - (B) the same as that of the target currency.
 - (C) greater than that of the target currency.
20. Which of the following is least likely to be a function of the central bank?
- (A) Collect tax payments.
 - (B) Issue currency.
 - (C) Regulate the banking system.
21. The time it takes for a fiscal policy action to affect the economy is best described as:
- (A) impact lag.
 - (B) action lag.
 - (C) recognition lag.
22. Discretionary fiscal policy refers to:
- (A) buying or selling securities in the open market to influence interest rates.
 - (B) active decisions regarding spending and taxing to affect economic growth.
 - (C) government spending programs that counteract the business cycle without the intervention of policymakers.
23. A country whose actions reflect nationalism is least likely to behave in ways that exhibit:
- (A) bilateralism.
 - (B) autarky.
 - (C) hegemony.

24. A high-net-worth investor has a long time horizon of approximately 25 years before he will shift his allocations more in favor of safer, low-risk investments. The likelihood of this investor reacting to an event categorized as a black swan risk by changing his allocations is:
- (A) high.
 - (B) low.
 - (C) moderate.
25. Settling trade disputes and establishing agreements between trading partners most accurately describe the activities of the:
- (A) International Monetary Fund.
 - (B) World Bank.
 - (C) World Trade Organization.
26. Promoting international monetary cooperation, promoting exchange stability, and assisting members experiencing balance of payments difficulties are the goals of the:
- (A) World Bank.
 - (B) International Monetary Fund.
 - (C) World Trade Organization.
27. Manufacturing and trade sales are best described as a:
- (A) leading indicator.
 - (B) coincident indicator.
 - (C) lagging indicator.
28. Firms' initial responses to an emerging economic contraction are most likely to be:
- (A) reducing overtime hours.
 - (B) laying o workers.
 - (C) deferring maintenance of machinery.
29. As an economic expansion approaches its peak, the economy is most likely to show:
- (A) a decrease in inventory levels.
 - (B) accelerating sales growth.
 - (C) an increase in the inventory-to-sales ratio.

30. When the economy enters an expansion phase, the most likely effect on external trade is a(n):
- (A) decrease in exports.
 - (B) increase in exports.
 - (C) increase in imports.

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