

Q.9) Solution (b)

Explanation:

Any currency that can have its exchange rate affected by the intervention of a central bank or the government of that country is termed as Managed currency. This is opposed to a currency that is determined solely by the forces of supply and demand in the world market. Virtually no currencies truly fall into this latter category.

Q.10) Consider the following statements with reference to the Foreign Direct Investment

1. FDI inflows are more stable and less volatile in nature, in contrast to the Foreign Portfolio Investments which are highly volatile in nature.
2. FDI is preferable over debt financing as it does not create interest obligations.

Which of the following statements is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Q.10) Solution (c)

FDI is more stable and less volatile in nature, in contrast the Foreign Portfolio Investments are highly volatile in nature. They are also called the Hot Money, as they can leave India overnight to invest in other markets.

FDI being more stable in nature involves investments with long term profits in mind. They generate profits by locally producing the goods and services, as such are more preferable over the Debt financing as it creates interest obligations even when the business is not running well.

Q.11) What is the term used in the foreign exchange market which denotes the currency in which the highest faith is shown and is needed by every economy?

- a) Hard currency
- b) Hot currency
- c) Soft currency
- d) Cheap currency

Q.11) Solution (a)

Hard Currency: